

2006 Budget Statement

**BUDGET STATEMENT TO THE HOUSE OF COMMONS
DELIVERED BY THE RT HON GORDON BROWN MP,
CHANCELLOR OF THE EXCHEQUER
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Check against Delivery

Mr Deputy Speaker, the British economy is strong and strengthening.

I can report that inflation is currently 2 per cent – on target.

And in the latest quarter, the economy is growing at an annual rate of 2.5 per cent - on target.

As we enter the tenth year of growth under this Government – the only Government in British history to be entering the tenth consecutive year of uninterrupted economic growth.

And with the pace of world economic change accelerating, this is a Budget to further strengthen Britain for the global opportunities ahead:

To lock in stability, but also to lead the world in the new industries and technologies which will increasingly shape our future;

For British people higher skilled jobs with higher wages, but also new choices for parents to balance careers and family life;

To invest in and reform public services, housing and infrastructure – and also building on the climate change levy meet the energy and environmental challenge;

Most of all a Budget for Britain's future to secure fairness for each child by investing in every child.

A modern Britain which leads on enterprise and prosperity, because we lead in opportunity and fairness.

For fifty years Britain's economy was prone to high and volatile levels of inflation.

And our first challenge was and is not just achieving low inflation today, but entrenching a culture of stability that allows Britain to invest for the long term.

Today I can report that we have met our inflation target this year and every year since 1997; and looking five years ahead and even ten years ahead under current policies inflation is still expected to be in line with our target.

In just a decade long-term inflationary expectations have virtually halved to 2 per cent. And today long-term interest rates are the lowest they have been for forty years – at just 4 per cent.

Indeed even when facing, in succession, the Asian crisis, the it bubble, an American recession, Euro area stagnation, and most recently the challenge of the oil shock and house price inflation – challenges which in previous decades led to British recessions – our economic framework for stability has proved robust and prudent.

On Black Wednesday – September 1992 -interest rates reached 15 per cent. Since 1997 interest rates have averaged 5 per cent.

And mortgage rates which averaged 11½ per cent between 1979 and 1997, have since then averaged just half that --- at 6 per cent.

As I have said before Mr Deputy Speaker: No return to boom and bust.

And in new measures entrenching stability today, we will continue to have the strength to take the right long term decisions.

First since 1997 my approach has been that day to day management of monetary policy be independent and the same

principled approach be applied in other areas: to competition policy, industrial policy, small business policy and the management of debt, where today I am today publishing a new remit. Last year our stability enabled us for the first time in a generation to issue bonds with maturities of up to fifty years. I can announce that in the next issue, long dated gilts will increase from just under half to up to two thirds, reflecting the benefits we now gain from long term stability.

Today I am also publishing the detailed proposals, modelled on Bank of England independence, for official statistics to be the responsibility of an independent board, and for enhanced accountability to parliament.

And I am publishing a new memorandum of understanding agreed between the treasury, bank of England and financial services authority, so that Britain has in place the most up to date early warning and response system to deal with risks to economic stability.

Mr Deputy Speaker, we will continue to be vigilant internationally over global imbalances and oil prices.

And we will take no risks with inflation at home. The public sector pay settlements will show settlements averaging just 2¼ per cent – combining fairness in pay, with more for nurses, with vigilance and discipline in the fight against inflation.

It is Britain's new economic stability, and also our commitment to free trade, to scientific progress, and our willingness to invest that make our country now better placed than ever to be one of the global economy's success stories.

A year ago some said that the doubling of oil prices would push inflation far beyond our target and that a recession was required to slow the increase in house prices.

Instead I can confirm to the house, as stated in the pre budget report, that growth will be 2 to 2½ per cent, followed in 2007 and 2008 by growth of between 2¾ to 3¼ per cent.

Domestic demand is expected to grow by 2 to 2¼ per cent this year, strengthening to 2¾ to 3¼ per cent in 2007 and 2008. And as industrial production grows, exports are projected to rise by between 5 to 5½ per cent this year and 4¾ to 5¼ per cent in 2007 and 2008.

Mr Deputy Speaker, since 1997 economic growth in the euro area has averaged just 2 per cent, in France just over 2 per cent, Germany 1.4 per cent, Italy 1.4 per cent; Japan just over 1 per cent; but in Britain growth has averaged 2.8 per cent a year since 1997 - Britain with the USA and Canada the fastest growing economies of the G7.

This is the tenth successive year we have grown faster than the Euro area.

In fact we have not only achieved growth in every quarter of every year since 1997, but averaging 2.8 per cent, our growth rate now is significantly higher than the 2.1 per cent average of the period 1979 to 1997.

Before we came to office, Britain was seventh of seven in the G7 for national income per head.

Figures published today show that since 1997 as a result of stability and sustained growth Britain has risen from 7th out of 7 to sixth, then fifth, then fourth, then third, now second in the G7 – second only to America in national income per head.

The test of our monetary policy is that we are achieving sustained stability and growth, not just for a year or two but for the long term.

And the test of our fiscal policy is that we match a commitment to balance the current budget over the economic cycle with an ability to make the necessary long-term investments.

Figures for the current budget from now to 2010-11 are minus 11, minus 7 and then surpluses of 1, 7, 10, and 12 billion pounds in successive years.

So we meet our first fiscal rule - the golden rule - in this economic cycle with a margin of £16 billion.

This £16 billion surplus contrasts with a deficit in the last economic cycle from 1986 - 1997 of £157 billion -- and we are well placed to meet our golden rule in the next cycle too.

The purpose of our second fiscal rule - the sustainable investment rule --- to keep debt at a prudent and sustainable level of national income --- is to end the situation where under past governments of both parties, Britain was plagued not just by stop go in our economy, but by stop go in capital investment.

So meeting our second rule allows us to combine stability with the necessary sustained investment in transport infrastructure, health, education and science.

As a result of our success so far, total net public investment which was just £5 billion a year in 1997 is this year five times as high - £26 billion.

Schools capital investment which was just £600 million in 1997, will in the coming year be £6 billion. Even after inflation we have invested a total of £32 billion in modernising our schools in just

nine years compared to just £14 billion in the eighteen years before - twice as much in half the time.

And to meet the infrastructure needs of business we have been able to double investment in skills, transport, and science.

Yet even with such levels of investment vital to our economy, we are still comfortably meeting our second fiscal rule.

Net debt is now 47 per cent of national income in France, 47 per cent in America, in Germany 62 per cent, in Japan 83 per cent and in Italy over 100 per cent -- but this year in Britain 36.4 per cent.

I can report that in future years debt will be 37.5, 38.1, 38.3, 38.4, and 38.4 per cent of national income. So we meet our second rule over the cycle and in every year and we do so by a margin of £26 billion.

Net borrowing - which was £90 billion just over a decade ago - will be £37 billions this year, £36 next year, then 30, falling to 25, 24 and 23 billions in 2010-11 as we borrow to invest, borrowing in that year 1.5 per cent of national income compared to 8 per cent just over a decade ago.

In line with what I said in the Pre-Budget Report, net borrowing adjusted for the economic cycle, will fall from 2.4 per cent of national income to, in future years, 1.9 and then in successive years 1.6, 1.6, 1.6 and 1.5 per cent.

For this Budget I have received representations to increase investment in skills, transport, infrastructure and science.

I have also received representations that we should adopt a third fiscal rule, that over the economic cycle and regardless of the needs of the economy, infrastructure and services – public

spending and investment must, as a matter of principle, always rise slower than growth.

Having analysed this proposal against our published plans I have found it would require in the coming year public spending £17 billion lower and £16 billion lower the year after, closing off the possibility of additional investment. I have rejected these representations.

We are consistent that facing the economic challenges ahead we still need as a country to invest more.

So meeting the two fiscal rules and in line with our published plans, public investment to meet our infrastructure needs will rise from £26 billion this year to £29 billion, then 31, 32, 34 and 36 billions in the years ahead. And gross investment will rise from £48 billion this year to £63 billion in 2010-11.

Sustained long term investment in our education in infrastructure and in our future: possible because of our stability.

So we can meet our fiscal rules, support the needs of business and make necessary long term investments: first in science, innovation and enterprise; second in infrastructure and transport; third in security and defence; and fourth in skills and education.

First, science, innovation and enterprise.

With the right long term decisions Britain can lead in some of the fastest growing and highest value added sectors - city and business services, education and health, creative and science based industries - once small, now one third of our economy and exports, soon a much higher share of jobs and wealth.

And in each one of these growth areas I propose that we do more to support the dynamism and enterprise of business – and I start

with the importance of Britain leading in scientific invention and discovery.

The Secretaries for Health and Trade are today announcing that to strengthen medical science and excellence in basic research, Britain will in future have a single budget for the medical research council and NHS research. And it will be worth at least £1 billion a year.

America has its path-breaking national institutes of health. And we will now build agreement on the right design and institutional arrangements for the British model.

To make best use of the additional £1.5 billion a year we invest in scientific discovery, we are today setting out plans for radically simplified allocation of the research funding that goes direct to universities.

And continuing our policy of making the management of industrial policy more independent, with a technology board now at arms length of government, we will refocus around business' own priorities for the competitive challenge ahead the £180 million now available for investment in cutting edge technologies.

Every advanced industrial country knows that falling behind in science and mathematics means falling behind in commerce and prosperity.

So the Education Secretary is announcing today a comprehensive programme for the recruitment, retraining, retention and reward of 3,000 science teachers; a new entitlement to study the full range of science subjects at GSCE level; and the funding of after school science clubs starting in 250 schools.

And to ensure investment is matched by performance we will benchmark science results, just as we now benchmark English and mathematics.

Britain's stability and our commitment to openness and free trade make us well placed to attract rising investment from all over the world.

In the last ten years business investment has grown on average at 5 per cent a year, compared with 3.4 per cent in the previous ten.

Ten years ago British business investment was £77 billion. This year it is £113 billion a year.

And the treasury expects that in the next two years business investment will grow faster than the economy at 4½ to 5¼ a year in 2007 and 2008 - rising to £126 billion in 2008.

Since 1997 there are 575,000 new and additional businesses

And 105,000 additional self employed men and women.

Growth in every region, reflecting the increasing dynamism and breadth of Britain's entrepreneurial culture.

In the cycle that ended in 1997 productivity growth averaged 2 per cent a year. In this current cycle it is 2.3 per cent, a rate of productivity growth higher than at any time since the 1960s - the result of our stability. After decades behind, Britain has caught up with Germany in productivity, is ahead of Japan and has halved the gap with France.

In total there are now 4.3 million businesses and 3.7 million self employed. And so to meet and master global challenges ahead it is right today to do more to back our enterprise culture.

To boost creative industries from design, architecture and fashion to film and media - soon 10 per cent of our economy - as well as modern manufacturing, I can announce that we are expanding the successful R and D tax credit by doubling – from 250 to 500 employees – the size of companies that can claim higher credit.

With the aim of trebling our education exports, soon £50 billions of our economy, we are signing new education partnerships with India, Russia and South Africa as well as China.

And to make Britain more attractive for overseas students, from May this year we will make it easier for those with specialist skills who graduate from English universities to work here for one year.

Alongside a new City of London taskforce to promote British financial services globally and backed up by a new British international business advisory council, the Foreign and Trade Secretaries are announcing that a revamped UK Trade and Investment will set new targets for expanding trade with China, India and emerging economies – and for making Britain the location of choice for international business.

Growing companies need venture capital. So I will refocus tax incentives for venture capital, with a 30 per cent relief for investments in venture capital trusts. From today twice as much investment as before will be eligible for income tax relief in enterprise investment schemes.

Since 1997 corporation tax has been cut from 33p to 30p and small business tax from 23p to 19p and capital gain tax for long term business assets from 40p to 10p, a corporate tax system that we will continue to discuss with business and keep internationally competitive.

I agree with employers who have suggested that for low paid workers there is a case for better alignment of the national insurance and income tax systems, and we will conduct a review in time for a consultation after the pre budget report.

Small firms with high growth potential often need equity finance.

So I can announce £100 million of new money to double enterprise capital funds.

Modern manufacturing will benefit not just from the expansion of the r and d credit, but the growing role of the manufacturing advisory service, and a smaller number of business services offering more targeted support.

Today I can announce the formation of a national enterprise network of over 200 schools, new summer schools in enterprise, including scholarships to American universities for young British entrepreneurs.

In the last budget I announced that Britain would pioneer risk based regulation. And today the government publishes our new code based on a legal requirement for inspection only where there is risk.

But risk based regulation will work best if it is applied not just here, but in the European union too. And we are asking the European council tomorrow to adopt the same risk based approach in the interests of Europe's global competitiveness.

Incomplete liberalisation of European energy markets is one factor in high gas prices. So at the European Council tomorrow we also propose that all energy and other sectors which fail to liberalise and open up to competition be subject to independent investigation and enforcement.

A Britain that thinks long term and thinks globally will compete not on low skills but invest in high skills.

The new deal enacted the principle of active labour market support for any person out of work, and the economy has generated 2.4 million additional jobs since 1997.

The claimant count which was 1.7 million then, is today even after recent rises 920,000 – 800,000 lower.

Britain has 75 per cent of adults in work, a higher rate than America and the euro area, and 170,000 more people in work than a year ago.

If we had today German, French or euro areas levels of employment we would have 3 million fewer jobs.

But while other countries have yet to succeed in the fight against mass unemployment, the new deal is rising to a new challenge.

Today the British economy has just 9 million highly skilled jobs. By 2020 it will need 14 million highly skilled workers.

And of 3.4 million unskilled jobs today, we will need only 600,000 by 2020.

Employers rightly tell us their greatest long-term need is a skilled flexible labour force.

And with the typical worker changing jobs seven times during a working life, investing skills and the ability to re-skill will make Britain the most flexible economy of the future.

So this Government will not abolish the new deal, which has helped over 1 million people into jobs, we will strengthen it as a new deal for jobs and skills.

The Leitch Review is considering a far reaching proposal under which Britain can lead in skills: whether and how to bring together at a local level employment and training services for not just the unemployed, but all seeking new skills.

Thanks to the national employer training programme 100,000 women workers are gaining skills for the first time

And following the recommendations of the women and work commission, I can today announce new help for working women who want a wider range of careers choices offering higher earnings and closing the pay gap with men. We will double available training and – increasing the work credit and from October increasing the minimum wage to £5.35 an hour - we will address the unacceptable discrimination in women's pay.

As the cities paper published today shows, our cities and largest towns are our biggest job creators but also the home of most unemployment. And the communities and work ministers are setting out measures to help 30,000 more lone parents into work and pilot partnerships with the voluntary sector and local authorities for thousands more jobs.

We are well on our way to meeting our objective of 2 million new homeowners since 1997.

After 160,000 new homes built last year there are now an additional 1.8 million homeowners – possible because of low mortgage rates.

But Government must also help balance supply and demand. Our priority, as barker recommended, has been: first, new laws to

speed up planning; and second, to release more public sector land now and in the future, to build 100,000 more houses.

To attract more capital into house building we will legislate to introduce for Britain real estate investment trusts that are so successful in the USA.

And to help finance necessary new infrastructure our policy is that local communities should retain more of the planning gains generated in their area.

Britain is pioneering shared equity to bring homeownership within the reach of first time buyers.

The Deputy Prime Minister is today announcing the allocation of £970 million for shared equity to help 35,000 new homeowners get their first step on the ladder of homeownership in our country.

And the Housing Minister is inviting housing associations local authorities and builders, as well as building societies, to offer shared equity. And we will now pilot minimum holdings as low as 25 per cent.

We will pilot a new scheme so that instead of tenants using housing benefit cash to pay their rent, the same money is used to bring sites back into use.

The Climate Change Levy, the resulting climate change agreements and the carbon trust funded by it have cut carbon emissions by a total of over 28 million tonnes.

This is the reason we are already able to meet our Kyoto targets.

And in each of the next 5 years these climate change measures will cut emissions by more than 6 million tonnes, accounting by 2010 for 40 per cent of our total carbon reductions.

Because of the Climate Change Levy over 10,000 businesses have signed climate change agreements. Under the Carbon Trust funded by the levy 3,000 businesses have reduced their emissions. And enhanced capital allowances have underwritten investment in 13,000 energy-saving products.

So I reject representations to abolish the climate change levy. And I can confirm today our resolve to continue to reduce emissions including through the climate levy.

Having kept the climate change levy at its original level for its first five years, it is my intention that for 2007 we index the climate change levy in line with inflation

As before, we will continue to return its revenue directly to business, and we will also consult with them on the most effective way of doing more to support investment in energy efficiency and the environment.

Our supply of energy should be stable, secure and competitive – and environmentally sustainable.

With 98 per cent of emissions occurring outside Britain, climate change is a global issue which demands global solutions. So our first ambition must be a long-term international framework. And I can tell the house that at the heart of this is our plan to strengthen and extend beyond 2012, the EU emissions trading scheme.

The developed world has a responsibility to help developing economies meet their energy needs in an environmentally sustainable way.

So at the World Bank meetings in April, the Secretary of State for International Development and I will propose a World Bank

facility– a \$20 billion – fund for developing economies to invest in alternative sources of energy and greater energy efficiency.

Our second ambition is for Britain to be a world leader in the discovery and development of new energy technologies.

Following a joint study with the Norwegian government we have found that carbon capture and storage in the north sea can reduce emissions from gas and coal power stations by up to 90 per cent. So we are today publishing proposals for industry wide consultation to move this important environmental advance from research to commercial development.

Britain has a unique opportunity to lead the development of all low carbon technologies in order to meet the challenge of climate change.

After discussions with some of the world's biggest energy companies, they have agreed to work in partnership to create, for Britain, a new energy and environmental research institute, and for it to become, for Britain, at the cutting edge of science and engineering, our aim is that public and private sectors together raise finance of one billion pounds.

Britain must lead not only in environmental research, but in exploitation of new sciences.

So to help British companies commercialise new environmental technologies, we are today setting aside an initial sum of £20 million as seedcorn finance for the first enterprise capital fund for the environment.

The energy used in buildings accounts for nearly half UK carbon emissions. So our third ambition is for Britain's homes and businesses to be the most energy efficient in the world.

Regulations to take effect next month will improve the energy efficiency of new buildings by 40 per cent compared to 1997 standards. But we will now do more both for new buildings and existing ones.

In the climate change programme review published next week the Secretary for the Environment will announce additional incentives and support to pilot smart metering and a new labelling scheme highlighting the energy efficiency of consumer goods.

And I can announce today, following an agreement reached this week with energy companies, a major extension of help for insulation - an additional 250,000 homes over the next two years. With every pensioner and low income families eligible for special help, from 1997 to the end of the parliament a total of 2 million more British homes will be insulated.

I can also announce a new fund, initially £50 millions, for microgeneration technologies which make it possible for homes and businesses to generate their own renewable energy. The purpose of this £50 million fund is to show how we can make these technologies from wind turbines to solar heating, affordable to schools, housing associations, businesses including local authority tenants – initially 25,000 buildings.

While half of carbon emissions come from buildings, a quarter come from vehicles.

So today I want to do more to encourage cleaner fuels and cars. I propose to radically reform vehicle excise duty.

I am introducing, to take effect tomorrow, a zero rate for a small number of cars with the very lowest carbon emissions which will pay no duty at all; and instead of £75 for cars with low emissions, significantly lower rates of £40.

Duty rates from today will be zero, £40, and then £100, 125, 150, 190 up to a new band of £210 for the small number of new cars that are the most polluting, 1 per cent of all cars - this will help pay for 5 million more fuel efficient cars to have their duty cut.

As a result of our decisions, and at an eventual cost of £10 million a year to the exchequer, the duty paid on 50 per cent of cars will be frozen or reduced from tomorrow.

Instead of just 300,000 motorists paying £100 a year or less, 3 million will now pay £100 or less.

To further reduce carbon emissions, 5 per cent of fuel will be made from bio-fuels by 2010. And I can announce new support and incentives that will, with the 20p duty differential, by 2008, be worth up to a 35p per litre.

It is our policy that each year fuel duties should rise at least in line with inflation, as we seek to meet our targets for reducing emissions and to fund our public services.

But for the fourth successive budget, because of high and volatile prices in the oil market, I propose to defer the usual inflation increase until September 1st.

I will maintain the duty differential for rebated oils.

And next week when she publishes the climate change review, the Secretary for Environment will set out her plans for a proposed annual carbon report.

And I can tell the house the measures we announce today are essential for the progress in cutting carbon emissions we all want to make.

The budget task is to strike the right balance between tax cuts that are affordable, investments that are essential and stability that is paramount.

But in striking this balance between tax, spending and borrowing I am able to do more for hard working families.

Taken together, child benefit and the child tax credit effectively means no income tax liability for a two child family with earnings up to £425 a week.

So 3 million of Britain's 7 million families with children have their income tax liability effectively wiped out by this family tax cut.

I have examined which tax decision could do most for families.

We are raising the personal tax allowance from £4,895 to £5,035.

One option would be to raise that personal tax allowance further.

Spending £500 million on a family tax cut in this way would give a two child family on median earnings of £24,000 a year, £22 a year more, 40p a week.

However, using the same resources to raise the child tax credit will give that same family a family tax cut worth £140 a year more, over six times as much, £2.70 a week.

So the best way to do most to help low and middle income families, the best family tax cut, is – as I will do today – raising the child element of the child tax credit.

Over the next 3 years I will improve it by 14 per cent.

For a family with two children the child tax credit will be worth up to £88 a week in 2009, or £4,500 a year, a far bigger family tax

cut than we could give if we used the same money to improve personal tax allowances or cut the tax rate.

And every one of Britain's 7 million families with children will gain as we raise child benefit to £17.45 on 10 April this year.

Since 1997 we on this side have also recognised that a rising economic tide does not automatically lift all people's living standards, and that over and above securing economic growth, we as a government have a responsibility to cut child poverty.

Because of investing in the child tax credit, child poverty which increased by over 2 million between 1979 and 1997, has fallen by 700,000 in our first seven years.

But we want to do more.

It is by both raising child benefits, as today, and encouraging more single parents into work – as we have also announced today – that 300,000 fewer children will no longer be growing up in poverty and instead have better chances.

And it is our intention that every child born and growing up in Britain is not only free from poverty but also has assets to their name

Since September 2002 every child born in Britain receives £250, and for lower income families, £500 for their own individual child trust fund.

And today with 1.5 million accounts already set up, I can announce that for these same children additional payments of £250 and £500 will be made at the age of 7 - an investment in the future and in a savings culture among young people, that will in time allow all young people to have more of the choices that were once available only to some.

I understand the very real pressures mothers and fathers face in affording safe high quality childcare.

In 1997 there was almost no direct help available at all for childcare other than for workplace nurseries.

From April working mothers and fathers can receive help through the child care tax credit worth up to £240 a week or, with the support of their employers, through the employers child care voucher.

This means there is help available for working mothers and fathers at every income level, the first time in Britain we have made an offer of universal help for child care.

The child care and work and families bills will give new rights to 9 months paid maternity leave and establish a new duty on local authorities to ensure child care places.

But today I am also raising the value of the tax-free child care voucher from £50 to £55 a week. And I am making capital grants available for medium sized or small employers to establish work place nurseries.

This will complement the rise from April 6th in the child care tax credit from 70 to 80 per cent of costs;

And the expansion of sure start children's centres from 700 today to, by 2010, 3,500 – an average of five children's centres per constituency.

Overall an increase in childcare places for families to 1.2 million – 90 per cent more than in 1997.

I am able to take further decisions on tax:

On Insurance Premium Tax, the Aggregates Levy, Air Passenger Duty and corporation taxes I propose rates remain unchanged.

On cigarettes, my decision is, for public health reasons, to go ahead with the annual inflation rise of 9 pence a packet from tomorrow.

I will freeze duty on whiskey and all spirits for the ninth successive year, the longest period without an increase for half a century.

I will implement, from midnight on Sunday, only the normal annual inflation rise of 4 pence on wine, 1 pence on a pint of beer.

In anticipation of world cup success this summer, I am freezing duty on champagne ... and on British sparkling wine.

I will also freeze duty on cider.

On VAT, I will continue to help churches and faith groups by refunding VAT paid on renovation of church buildings, monuments and other sacred places.

I will also extend the special vat scheme for horseracing.

And I hold to our pledge not to extend vat to a number of items: food, books and newspapers, public transport fares and children's clothes and children's shoes.

I am publishing today a full updated list of the goods and services now subject to the reduced vat rate of 5 per cent, and measures to tackle vat fraud and other avoidance.

Last year I proposed the European union raise the duty free allowance for bringing goods into the country from outside the

EU. This year the European commission have proposed to increase it from £145 to £340. But I am submitting proposals today for a further increase to £1,000.

The tax-free limit for ISAs will remain £3,000 cash and £7,000 in total.

And I can report that £190 billion has already been invested by 16 million people in ISA accounts

I can confirm as usual the tax-free winter allowance of £200 for pensioners and £300 for the over 80s. Further support for pensioners will be contained within the forthcoming pensions white paper

I will raise the exemption on stamp duty to £125,000 – which means with last budget's measure and this, we have taken 400,000 homebuyers out of stamp duty.

I will raise the amount of inheritance exempt from tax over the next 4 years from £275,000 this year to £325,000. 94 per cent of estates pay no tax.

Meeting all our fiscal rules, I have been able this year to cut vehicle excise duty, continue the freeze on fuel duty, freeze spirits duties, take more people out of stamp duty, extend the family tax cut, child tax credit, and give more employers and employees tax incentives to cut the cost of child care – while at the same time improving the tax allowances for business research, development and investment.

Because of the strength of our financial position I could cut further taxes while still meeting all my fiscal rules. And in each budget, instead of dogmatically imposing a third fiscal rule, I look at the merits of the case to get the balance right between tax, spending

and borrowing and in doing so it is also right to consider the case for additional investment in the national interest.

And I turn to our investment priorities: finance for our important educational reforms, plans for the Olympics and sports, and first defence, law and order and national security.

This is the first budget since the attacks and tragedies of July 7th, a day when the nation stood as one against terrorism.

We will never forget those who lost their lives and those who were injured.

And today we are allocating funds towards a memorial that will reflect the wishes of the victim's families.

And we will support with an initial endowment of £1 million the creation of a new charitable fund to support British citizens injured in or affected by terrorist acts at home and abroad.

Since September 11th 2001 we have doubled the budgets for security here at home from £1 billion to £2 billion.

The country depends upon the strength of our security services -- and our armed forces. And to support our armed forces who serve us in Iraq, Afghanistan and other international commitments, I am allocating an additional £800 million.

And to promote peacekeeping in the most troubled countries of the world, I am today also setting aside an additional £200 million.

And I can announce today the new un emergency relief fund with starting finance of \$250 million will, at the instigation of the International Development Secretary, immediately provide as its first major disbursement \$30 million in famine relief to the Horn of

Africa – building on our own emergency contribution of over \$60 million.

To deliver on the promises made at Gleneagles on aid and transparency, to move forward the international finance facility, and as part of the doubling of aid to Africa, I and fellow finance ministers will set out in Mozambique next month a new initiative launched by president Mandela – and we are grateful to him – to finance new, detailed ten year plans to meet the millennium development goal of free schooling for every child by, and if possible before, 2015.

This initiative is founded on keeping our promises to increase development aid each year to reach 0.7 per cent of national income.

As the Prime Minister has said, 2006 must also see an ambitious outcome for the world trade round.

To ensure developing countries can both support the round and benefit from it, we will contribute to an aid for trade fund that will help build the infrastructure and capacity to trade in developing countries urgently in need of our support

The 2012 Olympics will be a proud moment for London - and the whole of Britain.

Together the government, the London authority and the national lottery have already agreed funding of £3.4 billions.

And I am able to announce the next stage.

We will invest now in our 2012 Olympic champions.

Recent results in Melbourne have shown the outstanding young sporting talent in our country.

For training and facilities for our world class athletes of the future, I can announce £200 million of public money to be matched by raising £100 million in sponsorship from the private sector, and with another £300 million from the lottery, over £600 million in total: world class funding for world class athletes.

The Olympics will inspire young people all across Britain and we must open up to them new opportunities to take part in sports.

So today we are announcing that each year, from now until 2012, there will be a schools Olympics.

Starting in Glasgow this year, and in a different city each year, we will fund annual national competitions in Olympic events open to all school children throughout the united kingdom.

The 2012 Olympics is for athletes to excel in, but also must be an event that all Britain can share in.

So today we are also announcing an Olympic trust fund for nationwide sports and cultural events which will take place during the Olympics.

The games will end in 2012, but their legacy must continue. Benefiting not just London but the whole country.

So because we want the 2012 Olympics and beyond that any English bid for the 2018 world cup to regenerate sport across our country, I want us to build in every area of the country over the next decade public private partnerships that can renovate and extend local sporting facilities.

And we are today announcing initial funding of £34 million for a new national sports foundation starting next week which, modelled on the Football Foundation's success, will bring together public and private finance for new local sports facilities and grassroots participation.

And I am setting aside £2 million for a new venture between police, premier league football clubs and community groups with the Football Foundation to offer young people evening sports and to tackle anti social behaviour.

Following the Russell Commission I set up two years ago, the new gap year and volunteering scheme, youth national community service will be launched in may – with 26 company partners, a budget of up to £150 million and a target of 1 million youth volunteers. It will also be backed by youth community service on environmental projects, which will be financed by an expansion of the landfill tax credit scheme.

We must also do more to invest in youth and community facilities- both for the future where the banks and building societies have agreed unclaimed assets, once realised, will go to finance new facilities. And now from next month, in each local authority with budgets averaging half a million pounds, young people will, for the first time, decide on their local services. I propose to extend this with a new a challenge fund - open to all young people proposing innovative projects for youth and community facilities – additional cash to reward innovation and spread best practice.

And to further support this and the voluntary sector as a whole which are at the heart of life in every community we will now set up in the Treasury, an Office for the Voluntary Sector – including for faith as well as non faith charities – which will advise on gift aid, Futurebuilders; and conduct a nationwide consultation with the voluntary sector to inform spending decisions.

But as well as making these additional investments, this Budget will also start now the process of setting out our priorities and plans for the next spending round and the years ahead.

Our aim must be to ensure by our investment that hard working families are the beneficiaries of this era of global economic change.

It is right to have the fullest possible public debate.

A decade ago our first comprehensive spending review reflected the British people's priorities for health, education and our public services.

In the spending review of 2007 will come our response to long-term reviews on transport, energy and skills.

Today I am publishing plans to begin a public debate on our second comprehensive spending review.

But there are already two areas where, by setting out our direction now, we can best deliver our priorities in the future.

In order to release new resources for our priorities – central to which is building world-class schools and education – we are reviewing the use of assets in all areas.

After asset sales reported at £6.3 billion last year, we plan total sales by 2010 of £30 billion, releasing finance for our front line priorities.

In addition, I can also confirm the sale of Westinghouse will be completed in the next year. We expect it to raise £3 billion.

The Government will move ahead in the coming year with the sale of the tote.

To further diversify risk and after the energy review has reported, we are prepared to sell part of our stake in British Energy and related energy assets.

And we will publish plans for the sale and release of public spectrum.

All decisions that will release new money for priorities of the future

Published today are the figures for the first £6.4 billion of Gershon savings, including a reduction in civil service posts of 40,000.

And I can today announce further savings in the years of the next spending round from 2008 to 2011 that will also release new resources for future priorities.

The Home Secretary has agreed that he can invest more in priorities like policing and security, while making savings in other areas within a three-year budget at its 2007-08 real terms level.

HMRC, the Treasury, DWP and the Cabinet Office have also agreed that necessary modernisation will be funded from a new innovation fund and, alongside this, the spending review for these four departments will proceed on the basis of minus 5 per cent a year real terms below the base line of 2007-08.

Efficiency savings that will allow us to focus new and additional resources on other front line priorities.

Because to meet and master the global challenge, the most important investment in our economy and in our future and the most pivotal and important reforms we can make will be in the education of our children and young people.

I, like so many, am grateful for the inspirational teachers and the high quality of education that I received.

And just as I had the best chances, my aim is that all young people from whatever background have the best of chances.

And there are two priorities where - in this Budget – Britain can speed up our progress and advance even more quickly towards our ambition of world-class standards and excellence.

With China and India turning out not just 4 million graduates a year to Britain's 400,000, but also more computer scientists, more engineers, and more technicians, we can no longer afford to write off the talent or waste the potential of any young person.

So the Secretary of State for Education is announcing today, that those who have missed out on their first chance in education, will have a second chance to make the best of themselves.

We are today setting aside resources so that up to the age of 25, further education all the way up to the scale to A-level standards will be free of charge.

That new right to free learning will be backed by adult learning grants to help with costs of living.

And with financial help also for school leavers who have fallen through the net, to make the transition into training and work our aim is a Britain where all young people stay on in part time or full education and training, and gain skills throughout their working lives.

80 per cent of the 2015 workforce is already in the world of work.

But to make a reality of second chances in education at all ages, we must also strengthen our further education colleges – centres

of learning that have been neglected in the past, but must be at the forefront of future skills.

The Secretary for Education is announcing for each college a step change in employer involvement so that we can better match the demand for skills to the courses on offer. And she is also announcing new powers to redirect resources from failing courses to the best courses the ones individuals, employees and employers want to use.

And we will match these further education reforms that promote individual choice, increase local accountability and business engagement, and reverse failure with £500m of capital investment and an annual budget worth £7 billion by 2008.

As with other allocations separate announcements will be made for Scotland, Wales and Northern Ireland.

But while we have a duty to ensure second chances, we also have to ensure for every child the best first chance.

Even with a doubling of investment, Britain's share of national income spent on education is still behind America and other major competitors.

We know the educational benefits of more individual attention, small group teaching and tutoring, and that they are easier to get where the overall teacher pupil ratio is low.

In private schools there is one teacher for every nine pupils compared with one teacher for every sixteen in state secondary schools.

To secure better school results we have improved the pupil teacher ratio and doubled the money spent per year for the typical pupil from £2,500 to £5,000.

But this figure of £5,000 per pupil still stands in marked contrast to average spending per pupil in the private sector of £8,000 a year.

Our long-term aim should be to ensure for 100 per cent of our children the educational support now available to just 10 per cent.

So to improve pupil teacher ratios and the quality of our education, we should agree an objective for our country that stage by stage, adjusting for inflation, we raise average investment per pupil to today's private school level.

And I can start immediately in the coming spending round by closing today's gap between capital investment for pupils in private and state schools, so that all schools and all pupils have world class it, equipment, teaching materials and buildings.

So in the coming five years investment in schools will rise from £5.6 billion today to reach £8 billions a year – a 50 per cent rise making a total of £34 billion new investment over five years.

By 2011 annual investment in the typical child's education will be over £1,000 per pupil, matching in state schools in it equipment and buildings what private schools spend today.

Demonstrating --- fully within the discipline of our fiscal rules --- that by investing more in education and by investing not a lower share of national income, but a higher share - we can make a reality of our goal that all children have the best possible start in life.

A goal we could not achieve if bound by a fiscal rule that cut investment, but a goal we can achieve if we build a national consensus around a rising share of investment in education.

I have further announcements to make.

This budget's choice is to invest more not less in schools and families. To strengthen the new deal not abolish it. To maintain the climate change levy not remove it. And instead of cutting investment to hold firm – and not waver – on the principles that have given Britain stability, jobs --- and now allow us to do more for our priorities

To tackle crime and the fear of crime there are a record 141,000 police officers. And 6,300 Community Support Officers --- and in 1,000 neighbourhoods full community policing teams.

The Home Secretary and I want every community to have a community policing team as soon as possible.

So at an additional cost of £100 million we will ensure that by April next year we will more than double the number of community support officers from 6,000 to 16,000.

And ensure that there will be neighbourhood policing in every community in England and Wales.

From April 1st there will be free local bus travel for every pensioner and for disabled people.

But I believe that there should also be free national bus travel.

So the Transport Secretary is announcing today that from April 2008 at a cost of £250 million for every pensioner and for disabled people free off peak national bus travel in every area of the country.

And I have one further announcement.

In 1997 there was no payment at all direct to primary and secondary headteachers.

With £270 million extra from April rising to £440 million next year, I can today put much more money than before direct to our schools for tuition, teachers and teacher support.

There are those who say – as with the £1.5 billion I have already found for law and order, security, environment and the Olympics – this £440 million for education should be used to cut taxes, and I could, of course, afford to do so. But I say: investing in education comes first. And investing in education is this budget's choice.

For the typical primary school up from this year's £31,000, £44,000 direct to the headteacher.

For the typical secondary school up from this year's £98,000, from next week, £150,000 and then next year to £190,000, twice what it is now.

And for the largest secondary school with the greatest needs, from £260,000 to next week £365,000 pounds, rising to £500,000 next April.

Next year £440 million more direct to the school. Helping pay since 1997 for 30,000 more teachers since 1997.

Excellence in education: my priority

More investment and reform not less

A strong and strengthening economy

A budget for Britain's future

And I commend it to the house

Ends

Check against delivery