

Budget 2007

21 March 2007

BUILDING BRITAIN'S LONG-TERM FUTURE: PROSPERITY AND FAIRNESS FOR FAMILIES

The Government's economic objective is to build a strong economy and a fair society, where there is opportunity and security for all.

The long-term decisions the Government has taken – giving independence to the Bank of England, new fiscal rules and a reduction in debt – have created a strong platform of economic stability. The UK economy is currently experiencing its longest unbroken expansion since quarterly records began, with GDP now having grown for 58 consecutive quarters.

The global economy is in the midst of radical transformation with far reaching and fundamental changes in technology, production and trading patterns. This transformation will present both challenges and opportunities for the UK. Individuals, businesses and communities all need to be ready to respond to the changing global environment. This Budget sets out further reforms to lock in stability and to invest in the UK's future, including a major package of reforms to the corporate tax system to enhance international competitiveness, encourage investment and promote innovation, reducing the main rate of corporation tax to 28 percent by April 2008, the lowest in the G7.

The Government is committed to promoting fairness alongside flexibility and enterprise to ensure that everyone can take advantage of opportunities to fulfil their potential. The Government has undertaken a comprehensive programme of reform to the tax and benefit system with the aims of encouraging work and saving, supporting families, and ensuring security for all in old age. The Budget announces the next stage of these reforms, including removing the 10 pence starting rate and cutting the basic rate of income tax from 22 pence to 20 pence in April 2008, alongside increases to the Child Tax Credit and the threshold for the Working Tax Credit.

The Government's aim is to deliver world-class public services through sustained investment matched by far-reaching reform. The Budget announces that education spending in England will rise by 2.5 per cent each year in real terms (5.3 per cent in cash terms) on average between 2007-08 and 2010-11. As a result total education spending in England will rise from £63.7 billion in 2007-08 to £66.9 billion in 2008-09, £70 billion in 2009-10 and £74.4 billion in 2010-11.

MAINTAINING MACROECONOMIC STABILITY

The Government's long term economic goal is to maintain macroeconomic stability, ensuring the fiscal rules are met at all times and that inflation remains low.

The UK economy is currently experiencing its longest unbroken expansion on record, with GDP now having grown for 58 consecutive quarters. Over the past ten years, the Government's macroeconomic framework has delivered more stability in terms of GDP growth and inflation rates than in any decade since the war.

Overall economic developments are as forecast at the Pre-Budget Report. The UK economy grew by $2\frac{3}{4}$ per cent in 2006, as forecast in the Pre-Budget Report. The rebalancing of domestic demand gathered pace during 2006, with business investment ending the year growing at the fastest rate for eight years. The Budget 2007 economic forecast is little changed from that of the Pre-Budget Report. GDP is forecast to grow by $2\frac{3}{4}$ to $3\frac{1}{4}$ per cent in 2007, and then at trend rates of $2\frac{1}{2}$ to 3 per cent. CPI inflation is expected to return to target in the second half of 2007.

The Budget 2007 projections for the public finances are broadly in line with the 2006 Pre-Budget Report and show that the government is meeting its strict fiscal rules:

- the current budget shows an average surplus as a percentage of GDP over the current economic cycle, even using cautious assumptions, ensuring the Government is meeting the golden rule. Beyond the end of the current cycle, the current budget moves clearly into surplus including, by the end of the projection period, the cyclically-adjusted current budget in the cautious case; and
- public sector net debt is projected to remain low and stable over the forecast period, stabilising at a level below 39 per cent, below the 40 per cent ceiling set in the sustainable investment rule.

MEETING THE PRODUCTIVITY CHALLENGE

Globalisation and the continuing pace of technological change are driving rapid changes in the competitive environment and creating new opportunities and challenges. Raising productivity in the UK is critical for sustained economic growth and continued prosperity. Reforms introduced since 1997 have built on foundations of macroeconomic stability, flexibility and openness to competition to strengthen UK productivity growth. Maintaining this flexibility, supported by key long-term investments in infrastructure, skills and science,

is essential to increase productivity and seize new global opportunities. Budget 2007 sets out how the Government will build on the progress over the last decade through:

- **a major package of reforms to the corporate tax system** to promote growth by enhancing international competitiveness, encouraging investment and promoting innovation:
 - a reduction in the headline corporate tax rate from 30 per cent to 28 per cent from April 2008, making it the most competitive rate in the G7 and other major economies;
 - modernising and simplifying the capital allowance system;
 - further enhancements to the SME and large company R&D tax credit schemes;
 - increasing the small companies rate to reduce the advantage of extracting labour income by way of dividends;
 - the introduction of a new Annual Investment Allowance (AIA) of £50,000 for all business who invest to grow.

- **driving forward the risk-based approach to regulation** by implementing the Hampton Review's risk-based approach, consulting on applying it to employment tribunals and encouraging regulatory reform in Europe based on risk;

- **maintaining the Government's commitment that private and public sector R&D investment reach 2.5 per cent of GDP**, with the announcement of early CSR settlements for the Department for Trade and Industry's science budget and the Department for Education and Skills, which together will ensure that total investment in the public science base will rise by 2.5 per cent in real terms over the CSR period; and

- **reforming empty property relief in business rates** alongside a wider package of land and property incentives to increase competitiveness, encourage investment and deliver sustainable increases in housing supply.

Further details on these and other measures are set out below:

Reforming the business tax system

The business tax system has a key role to play in influencing the five drivers of productivity growth. Reforms to corporation tax (CT) over the last ten years have maintained the reputation of the UK as an attractive place to do business and to invest.

Building on this, the Government believes the time is now right for the UK to take a leading role to reform its business tax system. Budget 2007 announces reforms which will:

- **Enhance the competitiveness of UK companies** by reducing the main rate of corporation tax (CT) from 30 per cent to 28 per cent from April 2008, firmly establishing the UK CT rate as the lowest in the G7 and below the EU15 and OECD average;
- **Encourage growth through investment by:**
 - introducing an **Annual Investment Allowance** which will target investment support on all businesses that are investing for growth and help alleviate the cash flow constraints which confront small and growing businesses; and
 - **reforming the capital allowances regime** so that allowances better reflect true economic depreciation, ensuring that business investment decisions better reflect commercial rather than tax considerations, and removing outdated and unjustified distortions.
- **Ensure fairness across the tax system** by a staged increase in the small companies' rate of CT from 19 per cent to 20 per cent from April 2007, 21 per cent from April 2008 and 22 per cent from April 2009, as part of tackling tax motivated incorporation and refocusing incentives for small businesses towards those businesses that reinvest; and
- **Encourage growth through innovation by:**
 - increasing the headline SME R&D tax credit rate from 150 percent to 175 per cent; and increasing the R&D tax credit rate from 125 per cent to 130 per cent, form April 2008.

Better regulation

In response to the concerns of business, the Government is committed to ensuring that the costs associated with the regulatory system are proportionate to the risks posed. The Chancellor today:

- welcomes the recommendations of Michael Gibbons' review of dispute resolution and consulting on a range of employment law simplification measures; and
- as part of its commitment to deliver its Hampton commitments, announces five high-risk national priority areas for local authority

enforcement. These are: air quality, alcohol licensing, hygiene of food businesses, improving health in the workplace, and fair trading.

Investing in the growth of the UK's science and innovation system

The Government today announced a range of measures to enhance the leadership role of the Technology Strategy Board (TSB) to promote innovation across all sectors of the economy, through: new targets for the Research Councils to increase the amount of collaborative R&D they conduct in partnership with the TSB; a £100 million competition for the Collaborative R&D programme; and the intention to explore three new Innovation Platforms.

Lyons Inquiry and Empty Property Relief

The Government accepts Sir Michael Lyons' recommendations that business rates yield remain linked to RPI and that the tax is not re-localised. Lyons also proposes a system of local business rates supplements. The Government will assess this proposal, but believes any future system of supplements must be based on strong accountability to business.

Lyons examines the reliefs and exemptions in business rates. The empty property relief (EPR) was also identified by Kate Barker as a distortion to efficient land and property markets and barrier to UK competitiveness. In response the Chancellor announced today his intention to reform EPR from April 2008.

Lyons concludes that a robust evidence base has not been developed to support the introduction of taxes or charges on tourism. The Government therefore does not intend to introduce a tourist tax.

THE REGIONAL DIMENSION

The Regional Development Authorities have contributed to the development of regional policy in the Budget in three key areas: the role of the private sector in promoting regional economic growth, regional competitiveness in a global context and improving evaluation of RDA spend. Responding to this, the Budget takes further measures to improve the performance of regional institutions, develop the regional evidence base, and ensure strong regional input into the Budget process.

INCREASING EMPLOYMENT OPPORTUNITY FOR ALL

The Government's long-term goal is employment opportunity for all - the modern definition of full employment. Delivering this requires that everyone should be provided with the support they need to find, retain and progress in work, and adapt to and benefit from a global labour market. This chapter

describes the principles which underpin the Government's welfare reform agenda, and the further steps it is taking towards its aim of employment opportunity for all, including:

- **to provide further help to lone parents to stay in employment, by continuing to make In-Work Credit available to eligible lone parents in the current pilot areas until June 2008, benefiting over 250,000 lone parents, and offering a higher rate of £60 across the whole of London;**
- **introducing a four-week run-on in entitlement to Working Tax Credit** from the day that a previously eligible claimant ceases to work 16 hours;
- **testing reforms to the education and training offered to participants on New Deal for young people**, and testing a seamless link from New Deal to in-work training delivered through Train to Gain;
- **announcing local employment partnerships with large retail employers working in partnership with Jobcentre Plus** at a local level, to help the long-term unemployed and economically inactive back to work;
- **trailing short, work-focused approaches for English as a second or other language (ESOL) courses** in the London Cities Strategy pathfinders for parents on benefits or tax credits;
- **further improving the administration of Housing Benefit, and setting out an intention to reform Housing Benefit subsidy for temporary accommodation;**
- **introducing a package of measures to align further and simplify the benefits system;** and
- following the Low Pay Commission recommendations, **raising the adult rate of the National Minimum Wage to £5.52 per hour**, the youth rate, for workers aged between 18 to 21, to £4.60 and the development rate, for 16 and 17-year olds to £3.40; all from October 2007.

Further details on these and other measures are set out below:

Lone parents and work

Helping lone parents move into work is a key Government objective. The Budget announces an extension of the £40 per week In-Work Credit for lone parents in the current pilot areas until June 2008. This means that over

250,000 eligible lone parents will continue to benefit from improved financial gains to work.

The Budget also announces that the In-Work Credit will be increased from £40 to £60 in London to reflect higher living and childcare costs for lone parents in the capital.

Working Tax Credit run-on

To reduce overpayments and to ease the transition from tax credits to benefits, HMRC are introducing a four-week run-on in entitlement to Working Tax Credit from the day that a previously eligible claimant ceases to work 16 hours.

This will reduce the number and value of overpayments when people are late in reporting that they are no longer entitled to WTC. It also reflects the fact that, from this April, claimants are subject to a four week mandatory reporting period when they cease work or have other changes of circumstances.

Maximising effectiveness of the New Deal

The New Deal has been fundamental to the success of the Government's labour market policies. Over the last decade, the New Deal has found over 1.9 million jobs for people, including over 850,000 for young people and nearly 300,000 for unemployed adults. This success has contributed to a nearly two-thirds reduction in long-term claimant unemployment since 1997.

To maximise the effectiveness of the New Deal, today's Budget announces that the Government will pilot reforms that will strengthen the training offered to young people on the New Deal, encourage more to take up subsidised employment, which has proved to be the most successful of the full-time options, and create a seamless link from New Deal to in-work training through Train to Gain.

Local Employment Partnerships

Five leading employers in the retail sector - Asda, B&Q, Marks & Spencer, Sainsbury's, and Tesco - and the British Retail Consortium have today announced their commitment to work in partnership with Jobcentre Plus to support long-term benefit claimants into work, building on the successful approaches these retailers have already established. The support retailers have offered is set out in the Local Employment Partnerships agreement signed by the Chief Executives of the five retailers, the Chancellor and the Secretary of State for Work and Pensions (available at: www.hm-treasury.gov.uk). We estimate that the level of support offered by these five employers, if rolled out across the retail sector more widely, could provide

help for 100,000 people to find employment over the next five years. The British Retail Consortium has offered to help engage other major retailers to make this happen.

The Chancellor welcomed this announcement and thanked Asda, B&Q, Marks & Spencer, Sainsbury's, and Tesco for their commitment to this issue.

English as a second or other language (ESOL)

Speaking English can be an important step towards getting a job. For parents, not being able to speak English increases the chances their children will be in poverty. The Government will therefore trial short, work-focused approaches for English as a second or other language (ESOL) courses in the London Cities Strategy pathfinders for parents on benefits or tax credits.

Housing benefit

Budget 2007 announces further enhancements to the IT links between Jobcentre Plus, The Pension Service and local authorities to speed up the processing of Housing Benefit (HB) applications and reduce fraud and error. It also announces the Government's intention to reform the subsidy to local authorities for HB for temporary accommodation. These new measures will help to further simplify the system, and improve the work incentives, choices and mobility of HB claimants.

National Minimum Wage

Working Tax Credit (WTC) and the National Minimum Wage (NMW) work together to provide a guaranteed income in work, achieving fairness combined with labour market flexibility.

Following the Low Pay Commission's recommendations on 1 March 2007, the adult rate of the National Minimum Wage will rise to £5.52 per hour, the youth rate, for workers aged between 18 to 21, to £4.60 and the development rate, for 16 and 17 year olds to £3.40 from October 2007.

Tackling worklessness in London

There has been strong growth in the number of jobs and in the level of employment in London since 1997, but London's employment rate remains lower than both the national rate and that of every other UK country and region. *Employment opportunity for all: tackling worklessness in London*, published alongside Budget 2007, recommends: policies to relieve the congestion in London's low-skilled labour market; a more strategic approach to identifying the most appropriate employment programmes to address the needs of Londoners; a clearer focus on the employment needs of parents in

London; and consideration of the institutional arrangements best suited to implementing these changes.

BUILDING A FAIRER SOCIETY

The Government is committed to promoting fairness alongside flexibility and enterprise to ensure that everyone can take advantage of opportunities to fulfil their potential. Since 1997, the Government has undertaken a comprehensive programme of reform to the tax and benefit system with the aims of simplifying the system, eradicating child poverty, supporting families, promoting saving, and ensuring security for all in old age. The Government is also committed to a modern and fair tax system that ensures that everyone pays their fair share of tax. This Budget announces the next stage in modernising the tax and benefit system offering more support for work, families and pensioners:

- **removing the starting rate and cutting the basic rate of income tax from 22 pence to 20 pence in April 2008**, creating a simpler structure of two rates: a 20 pence basic rate and a 40 pence higher rate;
- **increasing the upper earnings limit for national insurance by £75 a week above indexation in April 2008 and, from April 2009, fully aligning it with the higher rate threshold** – the point at which taxpayers start to pay the higher rate of income tax, further simplifying the system;
- **raising the aligned higher rate threshold and upper earnings limit by £800 a year above indexation in April 2009;**
- **increasing the higher personal allowances for those aged 65 or over by £1,180 above indexation in April 2008**, removing 580,000 pensioners from paying tax. **By April 2011, no pensioner aged 75 or over will pay any tax until their income reaches £10,000;**
- **increasing the child element of the Child Tax Credit by £150 a year above earnings indexation in April 2008**, raising the child element to £2,080 a year;
- **increasing the threshold for Working Tax Credit by £1,200 to £6,420 in April 2008**, further strengthening the incentives to work for families with children and low-income working households;
- **raising the withdrawal rate on tax credits by 2 per cent to 39 per cent**, helping to retain the current focus of tax credits; and

- **increasing the weekly rate of Child Benefit for the eldest child to £20 in April 2010**, providing support to all families in line with the principle of progressive universalism.

This Budget also announces:

- **an increase in the annual Individual Savings Accounts investment limit from April 2008 to £7,200, with an increase in the cash limit to £3,600**, in order to encourage saving further;
- **an increase in the inheritance tax allowance to £350,000 in 2010-11**, to continue to provide a fair and targeted system;
- **measures to support the third sector, including £80 million in small grants for community organisations, a campaign to drive up giving through gift aid, and gift aid changes to facilitate relationship building with donors**; and
- **further reforms to modernise the tax system and protect tax revenues, including measures to tackle avoidance.**

Further details of these and other measures are set out below:

Modernising the personal tax and benefit system

Since 1997 the Government has embarked on a comprehensive programme of reform to the tax and benefit system, such as income tax and NICs reforms of 1999 and new tax credits of 2003. These reforms have aimed to simplify the system, to tackle child and pensioner poverty, and to make work pay. Budget 2007 announces the next stage in these reforms.

Once fully implemented, these reforms to the direct tax system mean that:

- four out of five households will be better or no worse off, and on average, households will be £100 a year better off;
- a single-earner family with two children on median earnings (£27,000), will be £500 a year better off;
- a single earner couple without children on half median earnings (£13,500) and receiving the Working Tax Credit will be £175 a year better off;
- child poverty will be around 200,000 lower than otherwise; and households with children in the poorest fifth of the population will be, on average, £300 per year better off; and

- around 580,000 fewer pensioners will pay income tax than would otherwise be the case, so that in total only 43 per cent of pensioners will be taxpayers.

Child poverty

The Government remains firmly committed to its goal of eradicating child poverty in a generation. Today's Budget sets out the next steps the Government is taking to meet this target, including:

- increasing the per child element of the Child Tax Credit by £150 per annum above earnings uprating from April 2008; and
- raising the weekly rate of Child Benefit for eldest children will to £20 in April 2010. This will benefit around 7.3 million families.

Raising the ISA annual subscription limits

The Government's planned reforms to make the ISA regime simpler and more flexible for savers come into effect in April 2008. To encourage further saving in ISAs, the Government today announced that the overall annual ISA investment limit will rise to £7200 of which £3600 can be in cash with effect from 6 April 2008.

Promoting giving through gift aid

There is much greater scope for charities to claim additional funds through gift aid. The Government will consult with the charitable sector on measures to increase take-up of gift aid and conduct an awareness-raising campaign. The Government will also work with the sector on payroll giving, and publish guidance on tax efficient giving for individuals. The package of reliefs available for charitable giving will continue to be worth over £2.5bn a year.

Third sector review

As part of the continuing review of the future role of the third sector in social and economic regeneration, this Budget announces additional funding of £80 million to provide small grants to grass-roots community organisations.

VAT and alterations to housing for elderly people

The rate of VAT for certain housing alterations for elderly people will be cut from 17.5% to 5% – the lowest rate available under EU VAT agreements – and is expected to come into effect on 1 July 2007 following discussion with representative groups.

Financial Assistance Scheme

To assist those who lost significant amounts when their pension schemes started winding up as a result of the sponsoring employer becoming insolvent, the Government will now extend the Financial Assistance Scheme further so that all members of affected pension schemes receive assistance of 80 per cent of the core pension rights accrued in their scheme. The cap on maximum assistance will be increased to £26,000 and the de minimis rule that excludes those whose FAS payment would be £10 or less a week will be removed. This includes an additional 85,000 people, ensuring all 125,000 who lost their pensions will benefit, bringing total long-term expenditure to £8 billion.

VAT reduced rate for smoking cessation products

To support those who wish to give up smoking, from 1 July 2007, the date of the introduction of the smoking ban, to 30 June 2008, the Government will reduce VAT to 5% for over-the-counter sales of smoking cessation products for one year.

Gaming Duty bands and rates

From 1 April 2007: the 2.5% starting rate of gaming duty is abolished; the 12.5% rate increases to 15%; and a new rate of 50% is introduced on gross yield from gaming in excess of £10 million per accounting period.

These changes remove the anomaly of a 2.5% starting rate of Gaming Duty and increase the effective rate of duty on the majority of casinos to 15%, in line with the rate applied to other parts of the betting and gaming industry. In addition, a new top rate of tax of 50% helps to ensure that this vibrant and expanding sector continues to make a fair contribution to tax receipts.

Remote Gaming Tax

PBR 2005 announced that remote gaming would be brought within the scope of gambling taxation.

Budget 2007 announces that Remote Gaming Duty will be set at 15% of gross profits from gaming (receipts minus winnings) in line with the rate of General Betting Duty. It will apply to anyone who provides remote gaming under licence from the Gambling Commission.

The rate compares fairly to existing gambling taxes, such as General Betting Duty at 15%.

Modernising the tax system

The Chancellor today announced measures to ensure the tax system continues to keep pace with developments in business practice and the global economy. The Government remains committed to improving the competitiveness of the UK economy while maintaining sound public finances and a fair tax system.

Review of Links with Large Business

The 2006 Review of Links with Large Business, published in November 2006, focused on improving the competitiveness of the UK and encouraging an environment in which business can flourish. Today HMRC publishes a detailed delivery plan setting out the targets, measures and timeframes for delivering the Review's proposals and an enhanced risk assessment framework which details how HMRC will focus resources on areas of key risk in order to resolve issues quickly and minimise the burden of enquiry on business.

Capital Allowances for Cars

As part of the Government's commitment to reducing the administrative burden in the tax system, the Budget announced further detail on options for simplifying the rules for capital allowances on cars. The Government proposes to remove the expensive car rules, and replace them with a simpler system of writing down allowances based on cars' CO₂ emissions.

Islamic finance

To help widen the investment opportunities that are available to all and support substantial market innovation in Britain, the Government is today:

- introducing a new regime for sukuk (Islamic securitisations) giving comparable tax treatment to conventional securitisations; and
- giving clarity through guidance on the treatment of diminishing musharaka (partnership share) and takaful (insurance) products.

These changes will ensure that British Muslims can get competitive financial services and the City remains at the forefront of developments in financial markets around the world.

Simplification and Reform of Insurance Tax

Today, the Government announces further measures that simplify the tax rules governing life assurance companies to complement the package announced at the 2006 Pre-Budget Report. The Chancellor has also

announced further details of the reform of the current taxation rules for general insurers' reserves, together with a consultation on the impact of reform of those rules on general insurers' ability to use losses.

Asset Management

In order to ensure that the UK is a place in which asset management can continue to flourish, the Government today lays out a framework, developed with industry, which will take forward the issue of the taxation of Authorised Investment Funds investing in property.

Investment Manager's Exemption

To give fund managers greater scope in their investment activities on behalf of non-resident funds, the Chancellor announced today an extension to the Investment Manager's Exemption (IME), bringing carbon trading instruments into the Exemption.

HMRC Criminal Investigation Powers

The Government today announces plans to update HMRC's criminal investigation powers and accompanying safeguards. Under the new approach, HMRC's investigatory powers in England, Wales and Northern Ireland will be based on the Police and Criminal Evidence Act (PACE). Consistent provisions will be introduced for Scotland, where PACE does not apply.

Penalties for incorrect returns

Budget 2007 announces a new approach to penalties for incorrect tax returns and accompanying safeguards. The new approach introduces a single penalty structure for incorrect returns for income tax; corporation tax; Pay As You Earn (PAYE) and National insurance Contributions (NICs); and VAT. It will apply to returns covering periods starting on or after 1 April 2008 and filed after 31 March 2009.

DELIVERING HIGH QUALITY PUBLIC SERVICES

The Government's aim is to deliver world-class public services through sustained investment matched by far-reaching reform. A decade on from the first Comprehensive Spending Review (CSR), the Government has been conducting a second CSR, reporting in 2007, which will identify what further investments and reforms are needed to equip the UK to respond to the challenges and opportunities of the decade ahead.

A central element of preparations for the 2007 CSR is a comprehensive value for money programme which will embed efficiency into departmental planning and release the resources needed to meet new priorities. This Budget announces further details of that programme, including:

- having established the baseline savings ambition for the 2007 CSR period of 3 per cent per year across central and local government, **this Budget confirms that all of these savings will be net and cash-releasing, thereby maximising resources available to improve frontline services and fund new priorities;** and
- **an early CSR07 settlement for the Attorney General's departments, which see their budgets fall by 3.5 per cent per year in real terms** and provides the early certainty needed to take forward an ambitious programme of reform and improvement across the criminal justice system.

Budget 2007 also confirms the firm overall spending limits for the CSR07 years 2008-09, 2009-10 and 2010-11, which ensure that the Government meets its strict fiscal rules while allowing it to increase total public spending by an average of 2 per cent per year in real terms with:

- **current spending increasing by an average of 1.9 per cent per year in real terms;** and
- **net investment rising to 2¼ per cent of GDP compared with ½ per cent of GDP in 1997-98, locking in the step change in investment over the past decade.**

This increase in overall resources, together with savings released by the CSR07 value for money programme, will enable the Government to sustain the pace of improvement in frontline services and focus additional investment on key priorities within a framework that entrenches the macro-economic stability secured over the past decade.

To ensure that the UK has the skills and science base it needs to prosper in an increasingly competitive global economy, alongside the **early CSR07 settlement for the science budget** set out earlier, Budget 2007 announces:

- **an early CSR07 settlement for the Department for Education and Skills which sees education spending in England rise by 2.5 per cent a year in real terms (5.3 per cent a year in nominal terms) on average over the period,** increasing UK education spending from 4.7 per cent of GDP in 1996-97 to 5.6 per cent by 2010-11; and
- **substantial additional resources to support the Government's vision for personalised education,** including funding for one-to-one

teacher-led tuition for over 300,000 under-attaining pupils a year in English by 2010-11 and 300,000 in Maths.

To accelerate the ongoing development of counter-terrorism capabilities, **Budget 2007 announces a further £86.4 million for the Security and Intelligence Agencies.**

Further details of these and other measures are set out below:

Value for money in SR04 and CSR07

Alongside this additional investment, the Government is determined to maximise the value for money delivered by existing spending, freeing up resources to reallocate to meet the challenges of the decade ahead.

Efficiencies continue to be delivered under the existing efficiency programme, building on the conclusions of the 2004 Gershon Report. Budget 2007 announces that:

- annual efficiency gains worth over £15billion have been reported by departments and local authorities as at the end of December 2006.
- Over 50,800 workforce reductions in the civil service and military posts in admin and support functions
- Over 11,000 posts relocated as part of the Lyons review.

The Pre-Budget Report confirmed the baseline savings ambition of at least 3 per cent per year across central and local government over the CSR07 period. In addition, administration budgets across departments will be reduced by 5 per cent per year in real terms, taking them to a new low as a share of public spending. Building on this, Budget 2007 announces:

- all of the savings delivered under the CSR07 value for money programme will be net and cash-releasing, thereby maximising the resources available to improve frontline services; and
- an early CSR07 settlement for the Crown Prosecution Service and other Attorney General's Departments that enable them to continue to improve services within an overall budgets that reduces by 3.5 per cent per year in real terms over the CSR07 period, completing the early CSR07 settlement for the criminal justice systems. With £19 million of modernisation funding, the AGDs will now be able to take forward a series of reforms including workforce modernisation and better case management.

Continuing investment in the UK's science base

The Chancellor announced today early CSR settlements for the Department for Trade and industry's science budget and the Department for Education and Skills, which together will ensure that total investment in the public science base will rise by 2.5% in real terms over the CSR period.

Increased funding for education

Budget 2007 announces:

- An early CSR07 settlement for the Department for Education and Skills which sees England education spending rise by 2.5 per cent each year in real terms (5.3 per cent in cash terms) on average between 2007-08 and 2010-11.
- As a result total education spending in England will rise from £63.7 billion in 2007-08 to £66.9 billion in 2008-09, £70 billion in 2009-10 and £74.4 billion in 2010-11.
- Meaning UK education spending as a proportion of GDP is projected to increase from 4.7 per cent in 1996-97 to 5.6 per cent by 2010-11.

This allows the Government to take a significant further step towards meeting its ambition that all pupils should have access to the levels of support and opportunity currently available in the independent sector:

By the end of the CSR, per pupil funding in the maintained sector will rise from under £2,500 in 1997-98 to £4,800 in 2005-06, £5,550 in 2007-08 (£2,250 in real terms, 2005-06 prices) and over £6,600 in 2010-11 (£5,800 in real terms, 2005-06 prices) growing per pupil funding by around a fifth between 2007-08 and 2010-11.

The extra resources for the Department for Education announced in Budget 2007 enable the Government:

- **In the early years:**
 - to meet and build on the commitments set out in the ten year strategy for childcare. This includes delivering a nationwide network of 3,500 Sure Start Children's Centres – one in every community – by 2010;
- **In schools:**
 - to take the next steps in making a reality of personalised teaching and learning, including funding to provide an average of 10 hours of one to one tuition for over 300,000 under-attaining pupils a year

- in English by 2010-11, and a further 300,000 under-attaining pupils a year in Maths; and
- to ensure that every school provides access to the full core offer of extended services by 2010, with sufficient resources to support extended service co-ordinators in secondary schools and clusters of primary schools.

PROTECTING THE ENVIRONMENT

The Government is committed to delivering a strong economy based not just on high and stable levels of growth, but also on high standards of environmental stewardship. This Budget responds to the Stern Review on the Economics of Climate Change and sets out the next stage in the Government's strategy for tackling climate change both domestically and globally, including:

- **that the Government will launch a competition to develop the UK's first full-scale demonstration of carbon capture and storage, the result of which will be announced next year;**
- **an increase in fuel duty rates of 2 pence per litre (ppl) from 1 October 2007, and increases in the next two years of 2ppl and 1.84ppl respectively;**
- **announcing car vehicle excise duty rates for the next three years, including rates for the most polluting cars rising to £400 and rates for clean cars in band B falling to £35;**
- **a review to examine the vehicle and fuel technologies which over the next 25 years could help 'decarbonise' road transport;**
- **a package of measures to support biofuels including extending the 20 pence per litre biofuels duty differential to 2009-10;**
- **a rise in climate change levy rates from 1 April 2008 in line with current inflation;**
- **that from 1 October 2007 all new zero-carbon homes costing up to £500,000 will pay no stamp duty, with zero-carbon homes costing in excess of £500,000 receiving a reduction in their stamp duty bill of £15,000;**
- **an intention that, by the end of the next decade, all householders will have been offered help to introduce energy efficient measures with the aim that, where practicably possible, all homes will have achieved their cost-effective energy efficiency potential;**

- **increasing funds available through the Low Carbon Buildings Programme** to a total of over £18 million to help meet the demand from households for microgeneration technologies; and
- a **£800 million international window for the Environmental Transformation Fund** to finance overseas development projects that deliver both poverty reduction and environmental benefits in developing countries.

The Budget also reports on the Government's strategy for tackling other environmental challenges including:

- **an increase from 1 April 2008 in the standard rate of the landfill tax by £8 a tonne per year, until at least 2010-11;** and an increase in the lower rate of the landfill tax from £2 per tonne to £2.50 per tonne from 1 April 2008; and
- **an increase in the aggregates levy rate to £1.95 per tonne from 1 April 2008.**

Further details of these and other measures are set out below:

Climate change and energy efficiency

Climate change and international development

The links between environment and development are clear. The impacts of climate change fall most heavily on those in poorer countries who are least able to respond. The Government recognises the need to urgently do more both to mitigate climate change and to help developing countries adapt to its impact.

Today's Budget announces the establishment of a new International window of the Environmental Transformation Fund, which will provide £800m over three years for a range of mitigation and adaptation measures in developing countries. This fund will enable the UK to take forward bilateral projects in developing countries as well as make contribute to multilateral facilities such as the World Bank's Clean Energy Investment Framework.

The Stern Review reported that deforestation is responsible for 18 per cent of greenhouse gas emissions. The key areas are tropical forests in developing countries. The Government will allocate £50m from the fund to help tackle deforestation in the Congo basin, led by Nobel prize winner Wangari Maathai.

New technologies

The Stern Review highlighted the role that Carbon Capture and Storage technology could play in lowering emissions, particularly in fast-growing economies with growing fossil fuel consumption. The Budget announces that the Government will launch this year a competition to develop the UK's first full-scale demonstration of carbon capture and storage, the result to be announced next year;

The Chancellor has asked Professor Julia King, Vice-Chancellor of Aston University and former Director of Advanced Engineering at Rolls Royce, working with Sir Nicholas Stern, to lead a review to examine the vehicle and fuel technologies which over the next 25 years could help to 'decarbonise' road transport, particularly cars. The Secretary of State for Transport will set out the Terms of Reference for the review shortly.

Climate change levy (CCL)

CCL encourages business to improve energy efficiency, which is an effective way to lower emissions of carbon dioxide, and can also help reduce energy costs. Budget 2007 announces:

- that CCL rates will rise in line with inflation from April 2008; and
- a package of measures to simplify the climate change levy.

Fuel Duty

Budget 2007 announces:

- an increase of 2 pence per litre (ppl) in main fuel duty rates this year, deferred until 1st October 2007; with increases 2ppl of a 2ppl increase in 2008-09 and 1.84ppl in 2009-10;
- an increase of 2 pence per litre in rebated oils duties, also deferred until 1st October, to maintain the cash differential with main rates. Rebated oils rates will then rise by the same proportions as increases in main fuel duty rates in the subsequent two years; and
- that the Government will maintain the Compressed Natural Gas differential with main fuel duty rates in 2009-10, and will decrease the Liquefied Petroleum Gas differential by a further 1 pence per litre, in line with the Alternative Fuels Framework. Changes will be made to both rates in 2007-08 and 2008-09 in line with previous Budget commitments.

Biofuels

Budget 2007 announces that:

- the current 20ppl duty differential will be extended to 2009-10;
- the duty incentive for biogas will remain at least at its current level until 2011-12, providing five-year certainty instead of the current three years;
- the Government will move forward with the proposed Enhanced Capital Allowance for the cleanest biofuels plant and will introduce a payable enhanced capital allowance for companies not in taxable profit to ensure that both profit making and loss making firms have an incentive to invest in the cleanest biofuels plant; and
- a 2% company car tax discount for E85 company cars (which run on high blends of biofuels) will be introduced from April 2008.

Vehicle Excise Duty (VED)

As with fuel duty rates, the Government today announces VED rates for this year and the next two years to further sharpen environmental signals to motorists to purchase more fuel efficient vehicles, including:

- raising the rate for the most polluting cars (band G) to £300 in 2007-08 and £400 in 2008-09; and reducing the rate for low carbon band B cars to £35 in 2007-08, with that rate then frozen for the subsequent two years;
- raising the rates for graduated bands C-E, cars registered before 2001 and all light goods vehicles by £5 in each of the next three years; and raising the rates for graduated band F by £10 in 2007-08, then £5 in each of the subsequent two years;
- in 2007-08 only, freezing the rates for motorbikes in the lower band with higher bands increasing by £1-£2; and freezing VED rates for Heavy Goods Vehicles (HGV), Special Types Vehicles, Combined Transport Vehicles and all vehicle categories that are linked to the basic goods rate; and
- aligning the VED rates for petrol and diesel cars as the differential in nitrogen oxides and particulate matter emissions for new cars is expected to fall close to zero once Euro V and VI emission standards become mandatory

Changes to this years VED rates take effect from 22 March 2007. All changes in subsequent years take effect from licences commencing 1 April in the respective year.

Company Car Tax (CCT)

Budget 2007 announces that Company Car Tax rates and thresholds will be frozen for 2009-10. The Company Car Fuel Benefit Charge multiplier will remain frozen at £14,400 for 2007-08.

Zero carbon homes

It is the Government's intention that within a decade, all new homes in England and Wales will be zero carbon. The Pre-Budget Report announced a time limited exemption from stamp duty for the vast majority of zero-carbon homes. Budget 2007 provides further details. The exemption will come into effect from 1 October 2007 and will be time limited to 30 September 2012; and the relief will provide exemption from tax liability when a house costs less than £500,000 and will provide a £15,000 reduction in tax liability to all homes worth more than £500,000.

Household energy efficiency and microgeneration

It is Government's intention that by 2017, all homes will be offered help to take cost effective action to improve their energy efficiency, with the aim that where practically possible, all homes will have achieved their cost-effective energy efficiency potential. Budget 2006 set out that through measures, including the Energy Performance Certificates being introduced later this year, Government intends that a market should develop in energy efficiency homes. Alongside the Energy Efficiency Commitment, Warm Front and Decent Homes programmes, Government is now working with banks and building societies to encourage the development of financial products to help finance energy efficiency and microgeneration installations.

Budget 2007 announces a £6m increase in funds available through the Low Carbon Buildings Programme – providing a total of over £18m to help meet the demand from households for microgeneration technologies.

Improving waste management and managing natural resources

Landfill tax

The standard rate of landfill tax, applying to active wastes (those that give off emissions), is currently £21 per tonne. As announced in the Pre-Budget Report, from 1 April 2007, this will rise by £3 per tonne to £24 per tonne.

The Government today announces an increase from 1 April 2008 in the standard rate of the landfill tax by £8 per tonne per year, until at least 2010-11; and an increase in the lower rate of the landfill tax from £2 per tonne to £2.50 per tonne from 1 April 2008

Additional revenue from business as a result of the increase in landfill tax announced in this Budget will be recycled to business through the reductions in corporate tax also announced.

Aggregates levy

Budget 2006 announces that the rate of aggregates levy will increase from £1.60 per tonne to £1.95 per tonne with effect from 1 April 2008.

