

**PRE-BUDGET REPORT AND
COMPREHENSIVE SPENDING
REVIEW STATEMENT 2007**

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REVIEW STATEMENT TO THE HOUSE OF COMMONS
DELIVERED BY THE RT HON ALISTAIR DARLING MP,
CHANCELLOR OF THE EXCHEQUER,
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Check against delivery

Mr Speaker,

Today I can present the Pre-Budget Report and the conclusions of the Comprehensive Spending Review.

The background to this year's report and Spending Review is a time of increased international economic uncertainty and more fragile global environment, which has already seen turbulence in America, Asia and Europe.

The theme of this year's Pre-Budget Report is that, provided we maintain the course for economic stability we have set, we can respond to this global environment.

We will do so by taking no risks with stability, no risks with unaffordable promises that put public finances at risk.

And we can respond as well to the rising aspirations of the British people, and we can do that by taking the right long-term decisions for our country.

So, today I will set out how we will maintain that stability and strong economy,

- meet our international obligations,
- improve our public services and invest more in the highest standard of education and healthcare; and
- equip our country for the future as we meet these new global challenges.

Let me start with the economic figures.

Mr Speaker, in March inflation was over 3 per cent.

But decisive action has brought it down to below our target of 2 per cent. I am able to forecast that inflation will again be on target next year and the year after.

So we are determined to hold firm to our economic framework that has proved resilient over the past ten years, and which we can be confident will do so now and in the future.

While this year, growth in America is expected to be 2 per cent, Japan 2.3 per cent, the euro area 2.6 per cent, in Britain – with exports and investment rising and employment at record levels – growth is expected to be 3 per cent this year.

Mr Speaker, Britain, the fastest growing advanced major economy in the world.

And that underlying strength of the economy will stand us in good stead as we face the current international instability that started in the American mortgage market and has now spread across the world.

Mr Speaker, the full impact from turbulence in the international financial markets is as yet unclear.

The House will rightly want to discuss in some detail the current international instability and its effect on Northern Rock, and I intend to make a full statement to the House later this week.

But the IMF has said this international uncertainty will have an effect on growth right across the world. Independent forecasters expect growth next year in America, the euro area and Japan to fall to 2 and 2½ per cent.

In these circumstances it is right that we too are cautious. So my forecast for growth next year is also of 2 to 2½ per cent.

But, because of the strength of our economy, our commitment to openness and liberalised trade across the world, and our flexibility and dynamism here at home, my forecast for growth in 2009 and 2010 is 2½ to 3 per cent – in line with the economy's trend rate of growth and in line with the forecast in the Budget.

Mr Speaker, we can only afford sustained investment in our priorities, because of our two fiscal rules that ensure sound public finances.

I can report that last year borrowing was 2.3 per cent of national income – that is £4 billion less than forecast.

I can report that debt was 36.7 per cent – also less than forecast.

And over the past ten years of this economic cycle, borrowing and debt in Britain has been lower than in Japan, the euro area, America and the OECD as a whole.

I can tell the House that we are meeting our first fiscal rule with the current budget in surplus over the cycle.

In the last economic cycle – from 1986 to 1997 – that rule was missed, with a deficit of £240 billion.

But over this cycle, with a current budget deficit last year lower than forecast, we have a surplus of £18 billion, and we are therefore meeting our first fiscal rule.

And even taking into account the impact of what is happening in the financial markets, we have a current balance going forward of minus £8 billion this year, then minus 4, then surpluses of 3, 9, 14 and 20 billion pounds by 2012-13. So we will meet our rule in the next cycle.

Mr Speaker, we will also meet our second rule that net debt should be at a sustainable level.

In America debt is 44 per cent, it's 49 per cent across the euro area, 86 per cent in Japan, and 94 per cent in Italy.

The figures in Britain are 37.6 per cent this year and then 38.4, 38.8, 38.9, 38.8 and then 38.6 in 2012, so meeting our second fiscal rule.

Debt interest was three and a half per cent of national income in 1997. Next year it is expected to be just 2 per cent. That low debt allows more investment in front line services.

Net borrowing is forecast to fall from 2.7 per cent this year to 1.3 per cent in 2012 – compared to a peak in 1993 of almost 8 per cent, the equivalent of £110 billion today.

The measures I am taking in this Pre-Budget Report allow fiscal policy to support the economy while ensuring the fiscal rules are met. As a result, net borrowing is forecast to fall from £38 billion this year to £23 billion in 2012.

So Mr Speaker, in this cycle and the next, we are meeting both our fiscal rules: borrowing not for current consumption, but for investment in Britain's priorities.

Mr Speaker, as my Right Hon Friend made clear in the Budget earlier this year, this Spending Review is tighter for many departments. All the more reason to identify increased efficiencies and savings.

The Spending Review has identified substantial savings that can be made by departments.

Building on the £20 billion already achieved, departments will save a further £30 billion by 2010. This is money available for reinvestment in public services.

In addition, asset sales in four years time will have reached £36 billion, reducing debt and releasing further resources.

Departmental plans will be published setting out in detail how these savings will be achieved.

Mr Speaker, we are seeing the rewards that can come from a successful economy and record levels of employment.

Mr Speaker, just under a decade and a half ago as much as three quarters of all new public spending was spent on debt and social security costs. The figure for this Spending Review will be a third of that.

Today I can announce because unemployment continues to fall, we will spend £400 million less than forecast in each year of the Spending Review on the costs of economic failure.

It is these three elements – a strong economy, sound public finances, and efficiencies – that make the investment I can announce today possible.

Mr Speaker, departmental spending will rise from £345 billion this year to £397 billion in 2010.

Departmental spending is published today. Investment will be matched with reform and clear objectives, set out in new Public Service Agreements published today.

I now turn to our proposals.

Mr Speaker, the foremost duty of any government is protecting our country.

The whole House will want to join me in acknowledging the dedication and courage of our armed forces in action overseas, including in Iraq and Afghanistan.

To support our armed forces in all they do, I am today allocating an additional £400 million for operations this year.

This is on top of the increase in the defence budget to £37 billion by 2010, which will provide over £500 million worth of investment for improvements in accommodation for members of the armed forces and their families.

In the mid-1990s defence spending was cut by 20 per cent.

This settlement is the longest period of rising investment in the defence of our country for almost 30 years.

Matching our commitment to international security with international diplomacy, we will increase the Foreign Office budget, including spending £460 million in 2010 on the British Council, the BBC World Service, and the launch of BBC Farsi and Arabic TV channels.

Mr Speaker, the terrorist attacks in July 2005 and attacks since, remind us all of the constant threat to our security here in Britain and of the critical importance of our police and security services.

Since 2001 spending on security and intelligence has more than doubled to £2½ billion a year.

I can now announce a new single budget that brings together the work of the police, the security services and all parts of the Government responsible for addressing the threat from terrorism.

The budget of the intelligence agencies will continue its historic real terms growth since 2001, with real growth over this period of 9.6 per cent a year. I can announce the single budget will rise every year over the next three years, a rise of £1 billion in total, to £3½ billion a year in three years time. This is a trebling in cash terms in a single decade.

Mr Speaker, this includes £700 million over the next three years for the Home Office for its work in combating the terrorist threat.

Overall, I am allocating additional resources to the Home Office and Ministry of Justice that will now rise to £20 billion by 2010, as we guarantee neighbourhood policing in every community, build 9,500 extra prison places and finance over £400 million in technology to strengthen our border security.

Mr Speaker, our ability to compete and succeed in the global age will depend on our competitiveness and continuing investment in the economy.

Britain's future success will depend not just on investment in physical capital but also skills, innovation and intellectual property.

And I am publishing today a new analysis, which shows that Britain could now be investing as much in these areas as the United States of America. This means almost £250 billion a year, up to quarter of today's income, is being invested in the priorities essential for securing tomorrow's prosperity.

Lord Sainsbury's science review reported last week. I can confirm investment in science and university research will rise to over £6 billion a year in three years time, helping ensure British research and industry are brought closer together to develop the new products and services the world wants to buy.

Britain has more Nobel prize winners than any country outside the USA. Yesterday another prize was awarded for medical research, which is testament to Britain's continued scientific success, recognised across the world.

And so more British medical discovery can be translated into new health drugs, treatments and preventions, I can announce today I am funding in full the recommendations of Sir David Cooksey's review. We will expand the single fund for health research to £1.7 billion by 2010.

Mr Speaker, in the past we paid a heavy price as a country for failing to invest when it was necessary, particularly on transport.

We are putting that right and will double investment.

By 2010 investment will rise to £14.5 billion a year, providing:

- extra money for strategic road schemes, like the M1 and M25 widening;
- £1.3 billion a year for improving local and regional transport across the country;

- and doubling the amount we spend over the next two years on upgrading the national rail network, ahead of a further £15 billion for railways over the following five years.

This also provides for the construction of Crossrail – the largest transport project since the Channel Tunnel and essential for the competitiveness of not just the City of London but for the whole country.

And, because transport requires investment year after year and decade after decade, I am extending to 2018, the long term funding guideline of annual growth of 2¼ per cent above inflation. This is only possible because of our commitment and ability to fund long term improvements.

I am also today publishing proposals to give local authorities the power to set a business rate supplement for investment and local economic development, so that with their support they can provide opportunities for business expansion.

Mr Speaker, making Britain one of the best places in the world to do business, also demands a modern tax regime based on three clear principles: that our system is competitive, its simple and fair.

I confirm the main rate of corporation tax will be cut by 2p to 28p next year. This is the lowest in the G7.

Working with business, we need to do more. I am announcing three reviews proposing simplification to the tax system that will let 3 million self-employed people pay their tax and National Insurance contributions more easily and 500,000 businesses reduce their paperwork by removing a separate payroll. Taken together with other measures I am proposing today, this will save British business up to £100 million a year.

The capital gains tax regime here has continued to encourage investment and enterprise. I now propose reforms to make the system more straightforward and sustainable; to ensure it sets consistent incentives for investment and enterprise; and to ensure it remains internationally competitive.

The new code of conduct for private equity firms drawn up by Sir David Walker will be published next month and will set out much needed steps for increased transparency and disclosure.

I can tell the House the changes I propose to capital gains tax also, taken together with the tax loopholes that I am closing, will ensure that those working in private equity pay a fairer share.

So from April next year I will withdraw the capital gains tax taper relief, and in its place there will be just one rate of 18 per cent – one of the most competitive single rates of any major economy.

I am also proposing measures to combat income shifting, vehicle excise duty evasion, and tackle the exploitation of National Insurance exemptions.

Mr Speaker, I believe that it is right that everyone who lives and works here should pay their fair share.

I therefore propose to close a number of loopholes which have allowed some people to avoid taxes that everyone else has to pay.

Mr Speaker, non-domiciled taxpayers already pay about £4 billion on their earnings. Any proposal for change has to be fair, workable and affordable.

I have examined proposals to impose a flat rate annual charge of £25,000 on 150,000 non-domicile taxpayers which it is claimed could raise £3½ billion.

There are in fact only 115,000 registered non-domiciles. If the charge of £25,000 was imposed, only an estimated 15,000 would earn sufficient money abroad to make it worthwhile to maintain non-domicile status.

As a result, the combined effect of people paying this charge or changing their tax status would be revenue not of £3.5 billion, but £650 million a year at most. A shortfall of more than £2 billion.

And such a charge could discourage men and women – doctors and nurses, businessmen and women – from coming to this country for short-term work and who do pay tax on their earnings here, and who do contribute to the country's wealth. We don't want to turn them away.

So I will now consult with a view to early legislation on an alternative route:

- as a first step introducing a charge after seven years, then a higher rate after ten;
- and preventing people claiming they are out of the country when they are actually here, from disguising income as capital and from claiming in effect two allowances;
- and for completeness on a flat rate charge for everyone.

These alternative measures raise an average of £650 million.

Mr Speaker, two of the great challenges for this generation are the need to tackle climate change and poverty across the world.

Alongside the Pre-Budget Report, I am publishing the next stage of the implementation of the Stern review, setting out how Britain is meeting its environmental obligations.

We are already the only country to have met our Kyoto obligations – reducing our greenhouse gas emissions by almost a fifth since 1990.

Next month when the Climate Change Bill comes before the House, we will become the first country to introduce legislation on binding carbon budgets.

I am today increasing the budget for the Department for Environment, Food and Rural Affairs to £4 billion in three years time to help us tackle climate change and protect the countryside. I confirm that includes provision of £800 million a year by 2010 for flood defences.

We now need to move further and faster on the next stage of the European Emissions Trading Scheme. As part of that we propose to significantly increasing the use of auctioning of carbon allowances, as we move further towards a low carbon future.

Mr Speaker, the single largest factor for improving energy efficiency in Britain has been the climate change levy – which, by 2010, will reduce demand for energy from business and government by 15 per cent.

I can confirm the levy will rise in line with inflation next April. As before, we will continue to return its revenue directly to business. And we will go further by extending the climate change agreements for ten years to 2017.

Building on reforms to relate company car tax to carbon emissions, I am uprating the fuel benefit charge to further strengthen the environmental incentive to drive fewer miles.

And in order to encourage business to generate their own clean electricity, we will exempt investment in microgeneration from any reassessment between rates' revaluations.

To ensure Britain is at the cutting edge of the next generation of technology for low carbon electricity, we are today setting out the key criteria for the competition for Britain's first full-scale carbon capture and storage project, that could cut emissions from coal power by 90 per cent.

Mr Speaker, I want to see European-wide agreement to a lower rate of VAT, in Britain of 5 per cent, for the most energy efficient products. So with the French government, I am writing to the Commission and other European countries today, and asking them to support our proposal.

Today, I am also publishing the interim report by Professor Julia King, which shows by choosing the most efficient cars on the market today drivers can cut emissions and their fuel bills by up to quarter. With new technology and cleaner power we could cut carbon emissions from cars by up to 80 per cent. I will bring forward proposals at the Budget after Professor King's final report, on ways to encourage the next generation of cleaner cars and incentives for people to buy them.

Mr Speaker, air travel accounts for a growing share of carbon emissions.

So it is right aircraft emissions should be part of the EU emissions trading scheme.

I also propose that aviation makes a greater contribution in respect of its environmental impact.

And for this to be as environmentally effective as possible, from 2009, I intend to levy the duty not on individual passengers but on flights, to encourage more efficient use of planes.

I can also announce a new Environmental Transformation Fund will have a three year budget of £1.2 billion, which will provide investment in new energy technologies here at home, and resources to meet our obligation to support poverty reduction in the poorest countries through environmental protection.

Mr Speaker, it is to the lasting shame of this country that in the 1980s and early 1990s aid to developing countries from Britain fell by almost a quarter.

In 1997 we devoted just £2 billion - a quarter of one per cent of our national income in development aid.

That figure today is over £5 billion.

But today I can announce that overseas aid will rise again to £9 billion by 2010.

In doing so we will meet our commitment to double multilateral and bilateral aid to Africa from 2004 to 2010.

And this puts us on course to meet our European commitment of 0.56 per cent of national income devoted to development aid by 2010; and then to meet our commitment to achieve, for the first time, the United Nations goal of 0.7 per cent by 2013.

I can tell the House we will meet all our international obligations to developing countries in full.

Mr Speaker, in the twenty years up to 1997 child poverty in Britain doubled.

Since then we have lifted 600,000 children out of poverty.

Two and a half million more people are in employment. We believe helping people into work is the best way of cutting child poverty and providing opportunity, which is why we continue to support the New Deal.

For first time in thirty years, the number of people on incapacity benefit is now falling almost 100,000 people taken off incapacity benefit in the last two years. The rollout of Pathways to Work will bring the public, private and voluntary sectors together to help more people into work.

I can confirm with 300,000 more lone parents in employment compared to ten years ago, we can help even more lone parents by extending the top up they receive for the first twelve months they spend back in work.

In addition, I can also announce today further measures to take children out of poverty.

First, I am doubling the amount of child maintenance a family can receive without affecting their family benefits to £20 a week next year and then £40 a week in 2010.

And second, I am increasing the child tax credit by a total of £175 a year from next April, with a further increase in 2010 - so that for families on low incomes, children's benefits and tax credits will be worth at least £3,500 a year for the first child.

Taken together these measures will lift a further 100,000 children out of poverty.

Mr Speaker, next year's rise in the basic state pension and other benefits will be announced later this month.

The Pension Credit for older people with just a small pension of their own will rise by £5 a week from next April – £260 per year – for a single person; and by £7.65 per week and £397 per year for a couple – guaranteeing every person over 60 at least £6,450 a year.

We will bring forward the start date for flat rating the State Second Pension to 2009.

I can announce direct funding for social care will increase to £1.4 billion by 2010. This will help provide new homes for older people and help people with disabilities live independently in the community, as well as offering more services for carers.

Mr Speaker, I can also announce an extra £200 million next year to deliver our commitment in England to every pensioner and disabled person, guaranteed free off-peak national bus travel.

Mr Speaker, today homeownership is 70 per cent – nearly 2 million more than 10 years ago.

But we need to do more. We need to ensure there are homes for people to buy.

Last year the number of homes increased by 185,000 - the largest increase for nearly 20 years.

Planning reforms coming before the House will help the building of more homes in an economically and environmentally sustainable way, as we provide additional investment to increase the level of house building to 240,000 a year by 2016. In total an extra 3 million new homes between now and 2020.

I can announce that we will also spend over £4 billion over the next three years to help people living in poor quality housing make renovations to their homes, so that by 2010 1.9 million of the poorest children and 1.7 million pensioners will have benefited.

As we build more homes, we need to ensure that properties are not left unrented, unsold or unavailable for people to live in. I am introducing measures today to help bring empty residential properties back onto the market.

Buying a home is probably the biggest investment people make in their lives. Fixed-rate mortgages can offer more certainty. And I want to see more fixed-rate mortgages not just for two years but ten years or even longer. And I will bring forward proposals at the Budget on reforms to help lenders ensure that, if it is right for them, more people can fix their mortgages as a matter of routine.

As we prepare plans for more home building, for eco-towns and for shared equity, we will also consider how else we can increase the supply of housing to help first time buyers enter the market.

Mr Speaker, the grants to local authorities for local services in England will increase to £26 billion by 2010. We have provided sufficient resources to ensure local authorities can keep overall council tax rises substantially below 5 per cent.

The budget for the Department for Culture, Media and Sport will increase to £2.2 billion in three years time. This guarantees an inflation increase for the arts, free access to museums and galleries, extra for sport so that every child and young person can take part in five hours of sport a week.

And it will deliver the Cultural Olympiad in the run up to London 2012.

Mr Speaker, I can also set out the total settlements of the devolved administrations in Scotland, Wales and Northern Ireland giving them their full entitlement:

- Scotland rising to £30 billion in 2010;
- Wales rising to £16 billion; and
- Northern Ireland rising to £10 billion.

This is in addition to spending in Scotland, Wales and Northern Ireland that is not devolved – like defence, tax credits and pensions – that benefit all parts of the United Kingdom.

I now come to my final decisions.

In capital gains tax there is currently transferability between spouses, recognising that capital assets are built up jointly over a lifetime.

In inheritance tax there is currently 100 per cent spouse relief, but no transferability of allowances.

I want to ensure that husbands and wives can benefit from each others unused inheritance tax exemptions.

So I will raise the total amount of inheritance for married couples on which no tax is paid. And this will apply to civil partnerships too.

From today, I can announce the combined tax-free allowance for their estates will not be the current £300,000 but up to £600,000.

By 2010, the combined tax free allowance for couples will rise to £700,000.

And I can do more.

To ensure that people who have already lost their husband or wife will also benefit, I will backdate this indefinitely for every widow or widower.

These changes mean:

- Certainty for up to 12 million married couples, with up to a £600,000 allowance rising to £700,000;
- the same entitlement for 3 million widows and widowers, this allowance worth more than the value of 97 per cent of homes in this country.

And in future years we will take both house prices and inflation into account when setting inheritance tax thresholds.

I now have a further choice to make.

As result of our economic management I can meet both our fiscal rules and invest more – £2 billion in 2010 in addition to the sum proposed at the Budget.

If instead, I was to raise the inheritance tax threshold to £1 million, it would cost a further £2 billion.

In doing this proposal, one billion pounds would go to estates worth more than £950,000, the top 1 per cent only.

Instead I have decided to go ahead with raising the inheritance tax exemption to 700,000 for married couples and civil partnerships and invest the additional £2 billion in health and education.

Let us now have the debate about what is affordable and what is fair in the future of inheritance tax.

I welcome that.

In this statement I have managed to raise the arts and culture budget, give the go ahead for Crossrail and meet our international obligations on overseas aid, double the budget for social housing and expand owner occupation.

I can now announce the final figures for education will be higher than originally proposed.

And I hope all parties will support and match these new plans when I explain where the additional money is going.

The Budget proposed that investment in education and skills will rise to £74 billion in 2010, increasing education spending as a share of national income rising from 4.5 per cent ten years ago to 5.6 per cent.

Today I can also announce, in addition, further investment providing a quarter of a billion fund to ensure all children at school are ready to learn and benefit from personalised support.

And I can do more on the NHS. Over the next three years the money we spend will rise again by more than its historic rate: on average, by 4 per cent above inflation.

This new investment will allow us to ensure a maximum wait of 18 weeks from referral to hospital, increased access to GP services and cleaner hospitals.

With the additional £2 billion of money I have available, I can now announce that investment in health in England will rise from £90 billion this year to a total of £110 billion in 2010.

I could have spent that £2 billion on an inheritance tax reduction for the few wealthiest estates.

Instead I am able to raise the inheritance tax allowance and invest more in schools and hospitals for all the British people.

This means in education to help build a new primary school in every local area by 2010.

And in health, when added to its budget, this will deliver over 20 new hospitals, 150 new walk-in centres open 7 days a week, 100 new GP practices, and aim to ensure a regular check up for every adult by the NHS – improving the quality of patient care across the country.

Not unaffordable tax cuts which deprive public services of the money they need; But an affordable tax cut, improved investment in health and education, founded on economic stability.

I commend this statement to the House.

Ends.