

22 June 2010

Budget statement by the Chancellor of the Exchequer, the Rt Hon George Osborne MP

Mr Deputy Speaker,

This emergency Budget deals decisively with our country's record debts.

It pays for the past.

And it plans for the future.

It supports a strong enterprise-led recovery.

It rewards work.

And it protects the most vulnerable in our society.

Yes it is tough; but it is also fair.

This is an emergency Budget, so let me speak plainly about the emergency that we face.

The coalition Government has inherited from its predecessor the largest budget deficit of any economy in Europe with the single exception of Ireland.

One pound in every four we spend is being borrowed.

What we have not inherited from our predecessor is a credible plan to reduce their record deficit.

This at the very moment when fear about the sustainability of sovereign debt is the greatest risks to the recovery of European economies.

Questions that were asked about the liquidity and solvency of banking systems are now being asked of the liquidity and solvency of some of the governments that stand behind those banks.

I do not want those questions ever to be asked of this country.

That is why we have set a brisk pace since taking office.

In the last seven weeks:

We have announced, conducted and completed a review of this current year's spending and identified six billion pounds of savings.

We have announced, established and received the report of the independent Office for Budget Responsibility.

The power the Chancellor has enjoyed for centuries to determine the growth and fiscal forecasts now resides with an independent body immune to the temptations of the political cycle.

And we have examined, decided on and in some cases halted the mass of unfunded commitments, IOUs and overcommitted reserves that greeted us on entering office.

This early, determined action has earned us credibility in international markets.

It has meant that our promise to deal decisively with the deficit has been listened to.

Market interest rates for Britain have fallen over the last seven weeks, while those of many of our European neighbours have risen.

Those lower market interest rates are already supporting our recovery.

But unless we now deliver on that promise of action with concrete measures, that credibility – so hard won in recent weeks – will be lost.

The consequence for Britain would be severe.

Higher interest rates, more business failures, sharper rises in unemployment, and potentially even a catastrophic loss of confidence and the end of the recovery.

We cannot let that happen.

This Budget is needed to deal with our country's debts.

This Budget is needed to give confidence to our economy.

This is the unavoidable Budget.

I am not going to hide hard choices from the British people or bury them in the small print of the Budget documents.

You're going to hear them straight from me, here in this speech.

Our policy is to raise from the ruins of an economy built on debt a new, balanced economy where we save, invest and export.

An economy where the state does not take almost half of all our national income, crowding out private endeavour.

An economy not overly reliant on the success of one industry, financial services – important as they are – but where all industries grow.

An economy where prosperity is shared among all sections of society and all parts of the country.

In this Budget everyone will be asked to contribute.

But in return we make this commitment.

Everyone will share in the rewards when we succeed.

When we say that we are all in this together, we mean it.

Mr Deputy Speaker, the first challenge for this Budget is to set the fiscal mandate – or in other words, our overall objective for the public finances.

The previous Government had two fiscal rules, one for debt and one for the current budget.

They were supposed to force Chancellors to set aside money in the good years so they could borrow sustainably when the economy turned down.

They completely failed in that task.

And as this is the last budget in which this golden rule will appear, I would like to be the last Chancellor to report on it.

We are set to miss the golden rule in this cycle by 485 billion pounds.

We now know the intrinsic weakness in backward-looking fiscal rules.

Past prudence was an excuse for future irresponsibility.

And the judge of the rules was the very same Chancellor they were supposed to be restraining.

We propose a more credible approach.

Our fiscal mandate will be forward-looking, and the judge of whether we are on course to meet it will be not the Chancellor but the independent Office for Budget Responsibility.

On behalf of the House, I want to thank Sir Alan Budd and his fellow Committee members, Geoffrey Dicks and Graham Parker, for their highly professional effort.

In the space of just seven weeks I believe we have established the Office for Budget Responsibility as a permanent improvement to economic policy making and the transparency of government.

The legislation to put the Office on a statutory footing will now be drawn up and I hope it will command all party support.

I now turn to what that fiscal mandate will be.

The view of the international community was clearly expressed at the latest G20 meeting, and we will be taking the same message to the G20 summit in Toronto this weekend.

Surplus countries should do more to support global demand.

So we welcome China's announcement to come off the dollar peg.

At the same time the international community believes countries with high fiscal deficits need to accelerate the pace of fiscal consolidation.

That is precisely what we now propose to do.

The formal mandate we set is that the structural current deficit should be in balance in the final year of the five-year forecast period, which is 2015-16 in this Budget.

This mandate is:

Structural – to give us flexibility to respond to external shocks;

Current – to protect the most productive public investment;

And credible – because the Office for Budget Responsibility, not the Chancellor, will decide on the output gap.

In order to place our fiscal credibility beyond doubt, this mandate will be supplemented by a fixed target for debt, which in this Parliament is to ensure that debt is falling as a share of GDP by 2015-16.

I can confirm that, on the basis of the measures to be announced in this Budget, the judgement of the Office for Budget Responsibility published today, is that we are on track to meet these goals.

Indeed, I can tell the House that because we have taken a cautious approach, we are set to meet them one year earlier – in 2014-15.

Or to put it another way, we are on track to have debt falling and a balanced structural current budget by the end of this Parliament.

Mr Deputy Speaker, at this point in the Budget speech, the Chancellor would normally read out their own set of economic and fiscal forecasts.

They normally tell you more about the political cycle than the economic one.

Those days have gone for good.

Instead I will give the House the latest forecasts from the independent Office for Budget Responsibility, taking into account the measures in the Budget.

Growth in the UK economy for the coming five years is estimated to be:

1.2 per cent this year and 2.3 per cent next year;

Then 2.8 per cent in 2012 followed by 2.9 per cent in 2013;

Then 2.7 per cent in both 2014 and in 2015.

Consumer price inflation is expected to reach 2.7 per cent by the end of the year before returning to target in the medium term.

And let me take this opportunity to confirm that the inflation target remains at 2 per cent as measured by the Consumer Prices Index.

The unemployment rate is forecast by the Office for Budget Responsibility to peak this year at 8.1 per cent and then fall for each of the next four years, to reach 6.1 per cent in 2015.

Some have suggested that there is a choice between dealing with our debts and going for growth.

That is a false choice.

The crisis in the Eurozone shows that unless we deal with our debts there will be no growth.

And these forecasts demonstrate that a credible plan to cut our budget deficit goes hand in hand with a steady and sustained economic recovery, with low inflation and falling unemployment.

What is more the forecast shows a gradual rebalancing of the economy, with business investment and exports playing a greater role and government spending and debt-fuelled consumption a smaller role.

A sustainable private sector recovery built on a new model of economic growth, instead of pumping the debt bubble back up.

Part of the reason, as we have always argued, is that tighter fiscal policy can enable interest rates to stay lower for longer.

And as the Governor of the Bank of England confirmed this last week at the Mansion House, “if prospects for growth were to weaken, the outlook for inflation would probably be lower and monetary policy could then respond.”

The subject of interest rates brings me to say this about attempts to directly compare last week’s forecasts with this one.

As the Office for Budget Responsibility notes in today’s Budget document, any such comparison would be “misleading”, because last week’s forecast included the lower interest rates that expectations of this week’s Budget have already brought about.

So as Sir Alan Budd and his colleagues have written, to actually follow the fiscal path set out by the previous Government “would lead to higher interest rates and so lower economic activity” than his forecast showed.

Mr Deputy Speaker, let me now turn to the measures in the Budget designed to deliver this accelerated reduction in the structural deficit.

The coalition Government believes that the bulk of the reduction must come from lower spending rather than higher taxes.

The country has overspent; it has not been under-taxed.

Our approach is supported by the international evidence, compiled by the Organisation for Economic Cooperation and Development, the International Monetary Fund and others, which found that consolidations delivered through lower spending are more effective at correcting deficits and boosting growth than consolidations delivered through tax increases.

This is the origin of our 80:20 rule of thumb – roughly 80 per cent through lower spending and 20 per cent through higher taxes.

This evidence has been available in the Treasury for some time, but was only published in a redacted form by the previous Government.

We intend to follow international best practice and the Treasury's own analysis.

My measures today mean that 77 per cent of the total consolidation will be achieved through spending reductions and 23 per cent through tax increases.

I believe this gets the balance right.

Mr Deputy Speaker, I now turn to the Office for Budget Responsibility's fiscal forecasts.

But as a result of the measures I will announce today, public sector net borrowing will be:

- £149 billion this year,
- falling to £116 billion next year,
- then £89 billion in 2012-13,
- and then £60 billion in 2013-14.

By 2014-15 borrowing reaches £37 billion, exactly half the amount forecast in the March Budget.

In 2015-16, borrowing falls further to £20 billion.

As a share of the economy, borrowing will fall from 10.1 per cent of GDP this year to just 1.1 per cent in 2015-16.

We now know, thanks to last week's Office for Budget Responsibility forecast, that the structural current deficit is significantly larger than we were told – 0.8 per cent of GDP or £12 billion next year.

Thanks to my action today, the structural current balance will be minus 4.8 per cent of GDP this year.

That deficit will then be eliminated to plus 0.3 per cent in 2014-15 and plus 0.8 per cent in 2015-16.

In other words, it will be in surplus.

Public sector net debt as a share of GDP will be 62 per cent this year, before peaking at 70 per cent in 2013-14.

Because of our action today, it then begins to fall, to 69 per cent in 2014-15 and then 67 per cent in 2015-16.

While under the plans we inherited, debt would have increased every full year of this Parliament.

And the House will want to know that as a result of our measures debt interest payments will be £3 billion a year lower by the end of this Parliament.

Mr Deputy Speaker, I have one further announcement to make regarding macroeconomic policy.

I can confirm that, as set out in the coalition agreement, this Government will not be joining the euro in this Parliament.

Therefore, Mr Deputy Speaker, I have abolished the Treasury's Euro Preparations Unit.

Yes, one does exist. And the official concerned has been redeployed to more productive activities.

Let me now turn to my other decisions on public spending.

Mr Deputy Speaker, the state today accounts for almost half of all national income.

That is completely unsustainable.

All parties in this House now accept that spending needs to be cut.

And we have made a start.

But we need to go much further if we are to meet our fiscal mandate and see debt falling by the end of this Parliament.

Today we are setting out the overall path of public spending that will achieve that.

Let me begin with current spending.

Current expenditure will rise from £637 billion in 2010-11 to £711 billion in 2015-16.

Although this is an increase, the House should remember that we inherit a rapidly rising bill for debt interest – a bill that won't start falling until the debt itself starts to fall.

Debt interest payments alone will cost the taxpayer a quarter of a trillion pounds over this period.

One of my predecessors used to call this spending the costs of social failure – I say it is the price of economic failure.

Compared to the plans set out by the previous Government, I am announcing today additional current expenditure reductions of £30 billion a year by 2014-15.

The plans for public investment we inherit from our predecessors envisage a steep drop from £69 billion last year to £46 billion in 2014-15.

After the initial in-year reductions, the question we have faced is how much further to go.

Well-judged capital spending by government can help provide the new infrastructure our economy needs to compete in the modern world.

It supports the transport links we need to trade our goods, the equipment we need to defend our country, and the facilities we need to provide quality public services.

I think an error was made in the early 1990s when the then Government cut capital spending too much – perhaps because it is easier to stop new things being built than to cut the budgets of existing programmes.

We have faced many tough choices about the areas in which we should make additional savings, but I have decided that capital spending should not be one of them.

There will be no further reductions in capital spending totals in this Budget.

But we will still make careful choices about how that capital is spent.

The absolute priority will be projects with a significant economic return to the country.

Assessing what those projects are will be an important part of the autumn spending review.

Mr Deputy Speaker, the Government can also dispose of assets which should rightly be in private ownership.

Yesterday we launched the sale of High Speed 1.

We will look at how to dispose of our shareholding of NATS, the air traffic control services.

We will aim to sell the student loan book, and look at options around early repayment for individuals.

And we will resolve the future of the Tote – at last.

My Right Honourable Friend the Business Secretary will also facilitate a private capital injection into the Royal Mail Group, something that has been long overdue.

Before I turn now to discuss departmental budgets, I need to say something first about another area of spending – the Civil List.

The Civil List is the Government's support for Her Majesty the Queen in Her duties as Head of State.

I am sure everyone in this House will want to join me in recognising The Queen's loyal service and immense contribution to public life.

The amount provided by the Civil List has remained unchanged over the last twenty years at £7.9 million.

This has required careful management.

Because of inflation, the annual payment is today worth only a quarter of what it was twenty years ago.

I can announce that, with the full agreement of The Queen, the Civil List will remain frozen at £7.9 million for the coming year.

I will propose a new means of consolidated support for Her Majesty for the future, at a later date.

In addition, the Royal Household have agreed that in future Civil List expenditure will be subject to the same audit scrutiny as other government expenditure, through the National Audit Office and the Public Accounts Committee.

I believe this will mean clear accountability in this House and it will strengthen public confidence.

Let me turn now to my decisions on departmental expenditure limits.

In recent years, Chancellors have been reluctant to explain what their total spending projections will mean for Whitehall departments.

This is entirely self-defeating.

It normally takes the Institute for Fiscal Studies less than 24 hours to work it out for themselves and let the public know the truth.

I will save them the effort.

We have inherited from the previous Government spending plans to cut departmental budgets by £44 billion a year by 2014-15.

This implies an average real reduction for unprotected departments of 20 per cent.

Not that this was ever said. Nor was a single pound of cuts to programmes even identified.

Because the structural deficit is worse than we were told, my Budget today implies further reductions in departmental spending of £17 billion by 2014-15.

We have committed to providing the National Health Service with real increases throughout the Parliament and we will honour our international aid obligations to the poorest in the world.

Once these are taken into account, the Budget figures imply that other departments will face an average real cut of around 25 per cent over four years.

Clearly, if we can find any additional savings to social security and welfare beyond those which I will shortly outline, then that will greatly relieve the pressure on these departments and that 25 per cent figure.

Of course, not all departments will receive the same settlement.

I recognise, for example, the particular pressures on our education system and on defence.

Final departmental settlements, and the final split between departmental expenditure and annually managed expenditure on welfare, will be set in the spending review.

Rather than follow the usual practice of keeping the date of that review a secret until a few weeks before it happens, let me tell the House that it will be presented on Wednesday 20th October.

A further way we can ease the pressure on public services is to agree that we need to restrain public sector pay in these difficult times.

And we need to do something about the spiralling costs of public sector pensions.

Many millions of people in the private sector have in the last couple of years seen their pay frozen, their hours reduced, and their pension benefits restricted.

They have accepted this because they knew that the alternative in many cases was further job losses.

The public sector was insulated from these pressures but now faces a similar trade off.

I know there are many dedicated public sector workers who work very hard and did not cause this recession – but they must share the burden as we pay to clean it up.

The truth is that the country was living beyond its means when the recession came. And if we don't tackle pay and pensions, more jobs will be lost.

That is why the Government is asking the public sector to accept a two-year pay freeze.

But we will protect the lowest paid.

In the past I have said that we would be able to exclude the one million public sector workers earning less than £18,000 from a one year pay freeze.

Today, because we have had to ask for a two year freeze, I extend the protection to cover the 1.7 million public servants who earn less than £21,000.

Together they make up 28 per cent of the public sector workforce.

They will each receive a flat pay rise worth £250 in both these years, so that those on the very lowest salaries will get a proportionately larger rise.

In recognition of our armed services who are risking their lives for us all in Afghanistan, we have also doubled the operational allowance to £4,800.

And we have asked Will Hutton to draw up plans for fairer pay across the public sector, without increasing the overall pay bill, so that those at the top of organisations are paid no more than 20 times the salaries of those at the bottom.

The culture of excessive pay at the very top of the public sector simply has to end.

Mr Deputy Speaker, we also need to deal with the cost of public service pensions.

This is one of the greatest long term pressures facing our nation's finances.

The Office for Budget Responsibility today publishes figures showing that by 2015-16 we will be spending over £10 billion a year simply to meet the gap between pension contributions and payments to the unfunded pensions they support.

That is why I have asked John Hutton to carry out an investigation.

As the Work and Pensions Secretary in the previous Government, he brings experience and an unbiased approach.

He will provide an interim report in September this year to help inform any decisions required for the spending review, and a full report in time for next year's Budget.

The Government will also accelerate the increase in the State Pension Age to 66. A call for evidence will be launched later this week.

And we will consult on whether to phase out the Default Retirement Age.

Mr Deputy Speaker, let me now address the largest bill in government – the welfare bill.

It is simply not possible to deal with a budget deficit of this size without undertaking lasting reform of welfare.

It has been a key component of most successful fiscal consolidations elsewhere in the world.

And around Europe, countries are now tackling their benefits bill.

Germany has already announced 30 billion euros worth of cuts to welfare spending.

And others are taking similar steps.

Here in Britain, the explosion in welfare costs contributed to the growing structural budget deficit in the middle part of this decade.

Total welfare spending has increased from £132 billion ten years ago to £192 billion today.

That represents a real terms increase of a staggering 45 per cent.

It's one reason why there is no money left.

It has also left an increasing number of our fellow citizens trapped on out-of-work benefits for the whole of their lives.

A greater proportion of our children grow up in workless households than any other country in Europe.

We are wasting the talent of millions, and spending billions on it in the process.

So we will increase the incentives to work, and reduce the incentives to stay out of work.

We will focus our benefits more towards those in need.

And we will end some one-off payments that the country cannot afford anymore.

First, we need to put the whole welfare system on a more sustainable and affordable footing.

So from next year, with the exception of the state pension and pension credit, we will switch to a system where we up-rate benefits, tax credits and public service pensions in line with consumer prices rather than retail prices.

The consumer price index not only reflects everyday prices better, it is of course now the inflation measure targeted by the Bank of England.

This will save over £6 billion a year by the end of the Parliament.

I believe this is a fairer approach than a benefits freeze.

In time for the next Budget we will also publish proposals to move the indexation in the tax system from RPI to CPI in a way that protects revenues.

Tackling spiralling welfare costs means also addressing the bill for tax credits.

Spending on tax credits has increased from £18 billion in 2003 to £30 billion this year.

This is unsustainable.

There are over 150,000 families with incomes over £50,000 receiving tax credits.

Taking into account the various disregards means that families earning up to £83,000 are eligible for this means tested benefit.

The country can simply not afford this.

We need to target tax credits on those who need the help most.

So we will:

- Reduce payments to families earning over £40,000 next year and then align the thresholds for the child and family element;
- Increase the taper rate at which awards are reduced;
- Remove the baby element for new children from April 2011;
- Remove the one-off payment to new workers over 50 from April 2012;
- Reduce the income disregard from £25,000 to £10,000, and then £5,000;
- Introduce an income disregard for income falls;
- Reduce back-dating from three months to one month;
- And we will not introduce the pre-election promise of a new tax credit element for infants.

Sadly, there are further benefits which the country can no longer afford.

So we will abolish the poorly-targeted Health in Pregnancy Grant from April 2011.

At the same time we will restrict the sure start maternity grant to the first child only.

And we will expect lone parents to look for work when their youngest child goes to school.

We have decided that we simply cannot afford to extend the Saving Gateway and we have also had to take a difficult decision about child benefit.

I have received many proposals about this.

Some have suggested we means test it; others that we tax it.

All these proposals involve issues of fairness. This benefit is usually claimed by the mother.

To tax it would mean the working mothers received less than the non-working partner of a millionaire.

Means test it and we would have to create a massively complex new system to assess household incomes.

I do not propose to do these things. I know many working people feel that their child benefit is the one thing they get without asking from the state.

So instead, to control costs, we have decided to freeze child benefit for the next three years.

This is a tough decision, but I believe it strikes the right balance between keeping intact this popular universal benefit while ensuring that everyone, across the income scale, makes a contribution to helping our country reduce its debts.

That brings me to another universal benefit, Disability Living Allowance.

Mr Deputy Speaker, it is right that people who are disabled are helped to lead a life of dignity.

We will continue to support them, and we will not reduce the rate at which this benefit is paid.

But three times as many people claim it today than when it was introduced eighteen years ago.

And the costs have quadrupled in real terms to over £11 billion, making it one of the largest items of government spending.

We will introduce a medical assessment for Disability Living Allowance from 2013, which will be applied to new and existing claimants.

This will be a simpler process than the complex forms they have to fill out at present.

That way we can continue to afford paying this important benefit to those with the greatest needs, while significantly improving incentives to work for others.

Mr Deputy Speaker, spending on housing benefit has risen from £14 billion ten years ago to £21 billion today.

That is close to a 50 per cent increase over and above inflation.

Costs are completely out of control.

We now spend more on housing benefit than we do on the police and on universities combined.

And among these enormous numbers for total spending there are some equally enormous individual awards.

Today there are some families receiving £104,000 a year in housing benefit.

The cost of that single award is equivalent to the total income tax and national insurance paid by 16 working people on median incomes.

It is clear that the system of housing benefit is in dire need for reform.

We will do that by:

- Re-setting and restricting Local Housing Allowances;
- Up-rating deductions;
- Reducing certain awards;
- Re-adjusting Support for Mortgage Interest payments;
- Limiting social tenants' entitlement to appropriately sized homes;
- And, lastly, we will for the first time introduce maximum limits on housing benefit – from £280 a week for a one-bedroom property to £400 a week for a four-bedroom or larger.

Our package today reduces the costs of Housing Benefit by £1.8 billion a year by the end of the Parliament, or 7 per cent of the total budget.

It will also improve incentives to work.

But at the same time we will target more resources to those who need it most, by increasing the budget for Discretionary Housing Payments, to deal with hardship cases, by £40m.

And from now we will cover the cost of an additional room for those claimants with a disability who need a carer.

Mr Deputy Speaker, taken together, all these measures to control the costs of welfare will save the country £11 billion by 2014-15.

Governments in the past have said they were going to get to grips with welfare and reward work.

We are delivering.

My Right Honourable Friend the Secretary of State for Work and Pensions will bring forward proposals to further reform the benefits system as a tool to support work and encourage aspiration in time for the autumn spending review.

But as I said right at the start of this speech, this Budget is not just about paying for the bills of the past.

It is also about planning for the future.

It is my deeply held belief that a genuine and long-lasting economic recovery must have its foundations in the private sector.

That is where the jobs will come from – and we will do absolutely everything to support their creation.

We argued that imposing a jobs tax was the last thing Britain needed in a recovery, and the businesses of the country agreed with us.

So we will adopt a different approach.

We will make it cheaper for companies to employ people.

From April 2011 the threshold at which employers start to pay National Insurance will rise by £21 per week above indexation.

The cost of hiring people on incomes lower than £20,000 will be less than it is today.

And in one move we will have lifted 650,000 employees out of this tax altogether.

But if we are to have a sustained, job-creating recovery, we need more than this.

We need to see growth not just in one corner of our country, nor in just one sector.

For we live in a world where the competition for business is growing ever more intense.

I want a sign to go up, over the British economy, that says “Open for Business”.

And this is how I propose to do it.

Corporation tax rates are compared around the world, and low rates act as adverts for the countries that introduce them.

Our current rate of 28 pence is looking less and less competitive.

So we will do something about it.

Next year we will cut corporation tax by one per cent to 27 pence in the pound.

The year after we will cut it again by one per cent.

And again the year after, and again the year after that.

Four annual reductions in the rate of corporation tax that will take it down to just 24 per cent.

It will give us the lowest rate of any major Western economy, one of the lowest rates in the G20, and the lowest rate this country has ever know.

At the same time we will agree with business a long term approach to the taxation of foreign profits, the treatment of intellectual property and the proposals from James Dyson on research and development.

We will also reduce the small companies tax rate.

The previous Government was planning to increase this tax rate next year to 22 per cent, at the very time we should be encouraging small businesses to grow.

We instead will cut it to 20 pence.

This will benefit some 850,000 companies.

And because small business are struggling to obtain credit at the moment, I will extend the Enterprise Finance Guarantee Scheme, which supports SME access to lending.

These changes will benefit at least 2,000 small businesses.

My Right Honourable Friend the Business Secretary will be coming forward in the summer with further proposals to expand the availability of credit, to make sure the economic recovery is properly financed.

There are many small businesses in the tourism industry today.

To help them, I am reinstating the favourable tax rules for furnished holiday lettings, which our predecessors had planned to repeal.

And I can also announce that there will be measures to cancel certain backdated business rates bills, including for many businesses in ports.

In the current climate, with the deficit the size it is, all these reductions in tax must be more than paid for by other changes to business taxation.

So, Mr Deputy Speaker, we will not go ahead with the poorly-targeted tax relief for the video games industry.

There will be a small reduction in the rates for capital allowances, which will remain broadly in line with economic depreciation.

For the majority of plant and machinery assets, the rate of allowance will fall from 20 to 18 per cent, while the allowance for longer-lived assets will fall from 10 to 8 per cent.

In other words businesses will still receive full tax relief on their qualifying expenditure, but over a longer timeframe.

I have also decided to reduce the Annual Investment Allowance to £25,000 a year, to ensure support is focused on investment by smaller firms.

Over 95 per cent of businesses will continue to have all of their qualifying plant and machinery expenditure fully covered by this relief.

Manufacturing as a whole will pay less tax.

And I have listened to the argument that changing these crucial allowances during the early stages of the economic recovery could be disruptive.

So I will delay the reductions in capital and investment allowances to April 2012.

This will give businesses the extra early advantage of the tax cuts, which start to come in from next year.

Mr Deputy Speaker, our reforms today will also mean a greater contribution from the banking sector, one that far outweighs any benefit they receive from the lower tax rates I have just announced.

In putting in order the nation's finances, we must remember that this was a crisis that started in the banking sector.

The failures of the banks imposed a huge cost on the rest of society.

So I believe it is fair and it is right that in future banks should make a more appropriate contribution, which reflects the many risks they generate.

Such an approach has already been recommended by the International Monetary Fund.

We are exploring the costs and benefits of a Financial Activities Tax, on profits and remuneration, and we will work with international partners to secure agreement.

But today the British Government takes the initiative in this global debate about the appropriate risks and rewards in international banking.

From January 2011, we will introduce a bank levy.

It will apply to the balance sheets of UK banks and building societies, and to the UK operations of banks from abroad.

There will be deductions for Tier one capital and insured retail deposits, and a lower rate for longer maturity funding.

Smaller banks with liabilities below a certain level will not be liable for the levy.

Once fully in place, we expect the levy to generate over £2 billion of annual revenues.

There are those who have argued that we should wait until every country in the G20 introduces a bank levy.

I believe that is not reasonable or fair.

Indeed I can tell the House that the French and Germans have joined the UK today in committing to introduce a bank balance sheet levy.

In a joint statement, our three governments have pledged to ensure our banks make a fair contribution to reflect the risks they pose.

Mr Deputy Speaker, the message I hear from the business community is unequivocal.

They want certainty and stability from Government so that they start the long process of rebuilding their businesses.

Today I am offering them just that.

A five-year plan to reform the corporation tax system, with lower rates, simpler rules and greater certainty.

The most fundamental and far-reaching reform of our corporate tax regime in generations.

It offers a stable and consistent platform for a private sector recovery.

It is a balanced package which will send a clear signal that Britain is open for business.

It will help companies invest, attract foreign investment, and boost growth.

Above all, it will help create jobs.

And by increasing the amount of business investment by an additional £13 billion between now and 2016, these reforms will help rebalance the economy away from household debt and government consumption.

Mr Deputy Speaker, we will also take forward our plans to create a Green Investment Bank, bringing forward private investment in clean energy and green technologies.

And we also need investment in our digital infrastructure.

But the previous Government's landline duty is an archaic way of achieving this, hitting 30 million households who happen to have a fixed telephone line.

I am happy to be able to abolish this new duty before it is even introduced.

Instead, we will support private broadband investment, including to rural areas, in part with funding from the Digital Switchover under-spend within the TV Licence Fee.

Mr Deputy Speaker, over the past decade the British economy has become deeply unbalanced.

Nowhere are these disparities as marked as between the different regions of Britain.

Between 1998 and 2008, for every private sector job generated in the North and the Midlands, 10 were created in London and the South.

We need a new approach.

One that empowers local leadership, generates local economic growth, and promotes job creation in all parts of the country including Wales and Scotland.

We will publish a white paper on how we intend to deal with these issues later in the summer, followed by a consultation paper on rebalancing the economy of Northern Ireland.

And as a step towards rebalancing our economy, we are today announcing support for those regions more dependent on the public sector.

First, even when money is so short, we will commit to these important regional transport projects:

The upgrade of the Tyne & Wear Metro;

The extension of the Manchester Metrolink;

The redevelopment of Birmingham New Street station;

And improvements to the rail lines to Sheffield and between Liverpool and Leeds.

Second, we will create a large Regional Growth Fund to provide finance for regional capital projects over the next two years.

We will announce the details shortly but priority will be given to projects that have the greatest impact on innovation and jobs.

Third, we will shortly announce a new tax scheme to help create new businesses in those regions where the private sector is not nearly strong enough.

For the next three years anyone who sets up a new business outside London, the South East and the Eastern region will be exempt from up to £5,000 of employer national insurance payments, for each of their first 10 employees hired.

We aim to have the scheme up and running by September, but any qualifying new business set up from today will also receive help.

And the Treasury estimate that some 400,000 businesses will benefit – ensuring all parts of our country contribute to a more balanced and sustainable economic future.

Mr Deputy Speaker, let me turn now to some further decisions we have made on taxation.

I am someone who believes in the virtues of lower taxation; but the only sustainable route to lower taxes is by first achieving sound public finances.

The sovereign debt crisis means we need to reduce the deficit even more quickly in order to protect our economy.

And the Office for Budget Responsibility has revealed the size of the structural deficit to be even larger than we feared, £12 billion larger next year.

As a result, this Budget announces a further fiscal tightening of £40 billion a year by the end of this Parliament, including welfare and spending measures, over and above the previous Government's plans.

To achieve that additional tightening while maintaining the right “four-to-one” balance between spending and taxation means that I have to announce further tax rises today.

On 4th January next year, the main rate of VAT will rise from 17.5 to 20 per cent.

The years of debt and spending make this unavoidable.

This single tax measure will by the end of this Parliament generate over £13 billion a year of extra revenues.

That is £13 billion we don't have to find from extra spending cuts or income tax rises.

I can also give this House a commitment that we will keep everyday essentials such as food and children's clothing, as well as other zero-rated items like newspapers and printed books, exempt from VAT over the course of this Parliament.

And, Mr Deputy Speaker, in line with the increase in the main rate of VAT, the higher rate of insurance premium will also rise from 17.5 to 20 per cent, while the standard rate will increase from 5 to 6 per cent.

Let me turn to my decisions on duties.

The March Budget included substantial increases in these.

I can tell the House that my Budget today includes no new increases in duties on alcohol, tobacco or fuel.

We will report back in the autumn on the scope for targeting alcohol duty at the products most associated with binge drinking and underage consumption.

We will explore changes to the aviation tax system, including switching from a per-passenger to a per-plane duty, and consult on major changes.

That will help reduce our carbon emissions.

We are examining the impact of sharp fluctuations in the price of oil on the public finances, to see if pump prices can be stabilised.

We will also look at whether a rebate for remote rural areas could work.

I have one final announcement on duties.

We have decided to reverse the previous Government's plan to increase the duty on cider by 10 per cent above inflation and the reduction will come into effect at the end of this month – just in time to celebrate England's progress to the quarter finals, or else to drown our sorrows.

Mr Deputy Speaker, that brings me to Council Tax.

At times like this, when money is short, we think all parts of Government should work hard to keep costs down.

And we want to give councils every incentive to do just that.

So we will offer a deal to local authorities in England.

If you can keep your cost increases low, then we will help you to freeze council tax for one year from next April.

That will mean that the average family will be some £35 better off next year and every year thereafter.

It will be one less rising bill for families to worry about – and it will drive value for money throughout all levels of Government.

Mr Deputy Speaker, one of the most chaotic areas of tax that the new Government inherited from its predecessor is the capital gains tax regime.

Some of the richest people in this country have been able to pay less tax than the people who clean for them.

That is not fair – and it stems from the avoidance activity that has exploited the wider gap between the rate of capital gains tax and the top rates of income tax.

These practices are costing other taxpayers over £1 billion every year.

It is therefore right, as set out in the coalition agreement, that capital gains tax should increase in order to help create a fairer tax system.

I have listened carefully to everyone's views and considered all the options.

My concern has been to balance the competing demands of fairness, simplicity and competitiveness – and I believe my decision gets that balance right.

Low and middle income savers who pay income tax at the basic rate make up over half of all capital gains taxpayers.

They will continue to pay tax on their capital gains at 18 per cent.

From midnight, taxpayers on higher rates will pay 28 per cent on their capital gains.

I have also decided that the Annual Exempt Amount for capital gains tax will remain at £10,100 this year and will continue to rise with inflation in future years.

I am acutely aware of how important it is to protect the incentives to succeed in business and to innovate.

So to promote enterprise, the 10 per cent capital gains tax rate for entrepreneurs, which currently applies to the first £2m of qualifying gains made over a lifetime, will be extended to the first £5m of lifetime gains.

I asked the Treasury to examine what would happen if we had increased the rate much further beyond 28 per cent, and their dynamic analysis showed that this would have resulted in smaller total revenues.

I also considered in great detail the options presented to me for introducing tapers or indexation allowances, and concluded that the complexity and administration involved would have been self-defeating.

The changes I have made mean that:

- the capital gains of the majority of taxpayers are protected;
- we have a top rate that is in line with our international competitors;
- we keep the system simple and easy for any taxpayer to understand;
- and we reduce the incentive to convert income to capital gains.

It is revealing that the great majority of the almost £1 billion of extra receipts we expect to see as a result of this change will come from additional income tax payments.

I believe this is the right way to reform the taxation of capital gains.

Let me say something here about the previous Government's policy to reduce pension tax relief for people on high incomes, due to come in next year.

Many businesses are alarmed at the complexity this will introduce.

I have listened to those concerns.

However, I must also protect the £3.5 billion of revenues this policy was set to raise from high income people.

I will therefore work with industry on alternative ways of raising the same revenue, potentially by reducing the Annual Allowance.

Let me turn now to income tax.

Mr Deputy Speaker, a responsible society is one that rewards the efforts of those who choose to work.

The income tax system, and in particular the abolition of the 10 per cent rate of income tax, has meant that many people on lower incomes face higher average tax rates.

I believe it is important to lift people out of the income tax system and allow them to keep more of their hard-earned money.

It is especially important to make progress in this Budget where we are asking so much of so many.

And it demonstrates that this coalition Government puts fairness first.

In the current system, everyone under the age of 65 is eligible to a tax-free personal allowance of £6,475.

This means there are many thousands of people who have their income taken away from them in tax, only to have to apply to get it back in benefits.

This does not reward work.

So today I can announce that we will increase this personal allowance by £1,000 in April.

People will be able to earn £7,475 before they have to start paying income tax.

23 million people who are basic rate taxpayers will each gain by up to £170 a year.

880,000 of the lowest income taxpayers will be taken out of tax altogether.

Higher rate taxpayers will not benefit from this change, and the higher rate income tax threshold will have to remain frozen to 2013-14.

Our long-term objective remains to increase the personal allowance to £10,000, as set out in the coalition agreement, and we will make real steps towards achieving that objective through the rest of this Parliament.

Mr Deputy Speaker, I do not disguise from this House that the combined impact of the tax and benefit changes we make today are tough for people.

That is unavoidable given the scale of the debts our country faces, and the catastrophe that would ensue if we failed to deal with them.

My priority in putting together this Budget has been to make sure that the measures are fair.

That all sections of society contribute, but that the richest pay more than the poorest.

Not just in terms of cash, but as a proportion of income as well.

That is far from straightforward when the deficit is this high and when the burden of reduction must rightly fall on government spending.

Too often when countries undertake major consolidations of this kind, it is the poorest – those who had least to do with the cause of the economic misfortunes – who are hit hardest.

Perhaps that has been a mistake that our country has made in the past.

This Coalition Government will be different.

We are a progressive alliance governing in the national interest.

And that requires us to make two final decisions.

First, we will provide lasting help for pensioners.

This earnings link was broken by the last Conservative Government and never restored through 13 years of the Labour Government.

It meant that each year more and more pensioners were drawn into the means test, punishing those who had done the right thing and saved for their retirement.

I can today announce that from April next year we will re-link the basic state pension to earnings.

Now pensioners can save with confidence.

They will also be protected by our new triple lock which will guarantee each and every year a rise in the basic state pension in line with earnings, prices or a 2.5 per cent increase – whichever is the greater.

There will be no more 75p increases in the basic state pension.

With this coalition Government pensioners will have the income to live with dignity in retirement.

Second, we will provide additional support to families in poverty.

These are among the most vulnerable people in our society and they need our help.

I have decided to increase the child element of the child tax credit by £150 above indexation next year.

This is a £2 billion a year commitment to low income families.

And we make it even now, in these difficult times.

I can tell the House that the policies in this Budget, taken together, will not increase measured child poverty over the next two years.

Overall, everyone will pay something, but the people at the bottom of the income scale will pay proportionally less than the people at the top.

It is a progressive Budget.

Mr Deputy Speaker.

Today we take decisive action to deal with the debts we inherited and confront the greatest economic risk facing our country.

We've been tough but we've also been fair.

We have set the course for a balanced budget and falling national debt by the end of this Parliament.

We have insisted that four pounds of every five needed to reduce our deficit will be found from government spending.

We have protected capital investment from additional cuts and got to grips with the soaring costs of welfare.

We have provided the foundations for economic recovery in all parts of our nation and given our country some of the most competitive business taxes in the world.

We have taken almost a million people out of income tax.

Half a million people out of national insurance.

And we have done all this without increasing child poverty.

Sadly, with this unavoidable budget we've had to increase taxes.

We've had to pay the bills of past irresponsibility.

We've had to relearn the virtue of financial prudence.

But in doing so we have ensured that the burden is fairly shared.

Today we have paid the debts of a failed past.

And laid the foundations for a more prosperous future.

The richest paying the most and the vulnerable protected. That is our approach.

Prosperity for all. That is our goal.

And I commend this Budget to the House.