

21 March 2007

## Chancellor of the Exchequer's Budget Statement

In this my eleventh Budget, my report to the country is of rising employment and rising investment; continuing low inflation, and low interest and mortgage rates; and this is a Budget to expand prosperity and fairness for Britain's families - and it is built on the foundation of the longest period of economic stability and sustained growth in our country's history.

Mr Deputy Speaker, this Budget will set out the long-term reforms we must now make to meet the global challenges ahead, and to build a Britain of high aspiration and achievement for the years to come.

I can report the British economy is today growing faster than all the other G7 economies - growth stronger this year than the euro area, stronger than Japan and stronger even than America.

And that after 10 years of sustained growth, Britain's growth will continue into its 59th quarter - the forecast end of the cycle - and then into its 60th and 61st quarter and beyond.

Mr Deputy Speaker, before 1997 we were bottom in the G7 for national income per head - seventh out of seven, behind Germany, Italy, France, Canada and Japan. Now we are second only to America and ahead of all these countries.

Every country has faced a trebling of oil and commodity prices. But while inflation peaked at 4.7 per cent in America and went as high as 3.3 per cent in the G7, here in Britain, inflation has never gone beyond 3 per cent, has fallen from 3 per cent to 2.8 per cent, and will fall further this year to 2 per cent.

Our forecast and the consensus of independent forecasts agree that looking ahead to 2008 and 2009 inflation will also be on target.

Mr Deputy Speaker, since 1997 inflation has averaged 1.5 per cent, half that of the previous decade. And after examining the historical records, it is Britain's best inflation performance for a century.

And by holding firm to our commitment to maintain discipline in public sector pay, we will not only secure our 2 per cent inflation target but create the conditions for maintaining the low interest and mortgage rates that since 1997 have been half the 11 per cent average of the previous twenty years. And we will never return to the old boom and bust.

In the last year investment has grown by 6 per cent, business investment by 7 per cent, with inward investment up 10 per cent.

Ten years ago and for decades before, Britain's stop go economy was also held back by chronic underinvestment, the lowest investment of the G7. Now alongside North America, Britain has the G7's fastest growing business investment - rising in real terms by 48 per cent since 1997 - and overall investment rising to 17½ per cent of our national income.

And this year business investment is forecast to rise again by more than 7 per cent - with the figures published today showing that as a result of sustained growth and investment we have closed the productivity gap with Japan and Germany, have narrowed it with America and halved it with France.

And so from a platform of high investment we can now equip ourselves for the next challenges of the global economy: to raise the quantity and quality of investment, not just in physical capital but human, scientific and intellectual capital too.

I can also report that in the last year employment has risen, with 220,000 more men and women in work.

It is now almost forgotten that in past decades Britain suffered higher unemployment not only than America and Japan but than France, Germany and the rest of Europe. But today, with unemployment falling and 2.6 million more in work, Britain has a higher proportion of men and women in employment than America, Japan and all our major European neighbours.

And the next stage in this Budget is to do more to equip British people with the new skills for the jobs of the next decade and beyond.

So Mr Deputy Speaker, with consumption forecast to rise in each of the next two years by 2¼ to 2¾ per cent, investment and exports by more than 3 per cent, we expect that next year, in 2008, alongside North America, our growth will again be the highest in the G7 - between 2½ and 3 per cent - with the same rate of growth also in 2009 - under this Government, with stability in this as in every other Budget the foundation, sustained growth year on year.

Just as our monetary discipline is the foundation of our economic strength, our fiscal discipline is the foundation of the strength of Britain's finances.

Our first fiscal rule is that over the economic cycle, government current expenditures are paid by tax revenues.

And in this cycle we have not only balanced current spending and revenues but are able to report a surplus of 11 billion pounds - demonstrating that for the first time in four decades Britain has met the golden rule.

This contrasts with the economic cycle - from 1977 to 1986 - where this first fiscal rule was not met with a surplus of 11 billions but missed with a deficit of £140 billion; and in the previous cycle - from 1986 to 1997 - when this golden rule was missed with a deficit of £240 billion.

Our forecasts of the current balance from 2007-08 to 2011-12 are affected by one major change in the last year - the sharply lower levels of production and yet higher costs in the North Sea - which have this year reduced tax revenues from £13 billion to £8 billion and for each year into the future cut them by an average of £4 billion a year.

Even with this reduced revenue, we are, however, on track in the new cycle to meeting the golden rule, with figures from 2007-08 of -4, +3, +6, +9 and +13 billion.

And we have also met our second fiscal rule, that debt should be at a sustainable level, enabling us over the cycle to borrow for the country's investment priorities.

Debt is 44 per cent of national income in the USA, 50 per cent in the euro area, and 92 per cent in Japan, but in Britain we expect debt from 2007-08 to 2012 to be 38.2, 38.5, 38.8, 38.8 and 38.6 per cent - at all times meeting our second fiscal rule.

This contrasts with a debt level of 44 per cent when we came to power. But we have both kept debt low and at the same time more than doubled capital investment in our schools, hospitals and infrastructure from just £18 billion a year in 1997 to this year £43 billion.

Britain's net borrowing, which in the early 1990s went as high as 8 per cent of our national income is this year just 2.7 per cent. In the future years to 2011-12 it will be 2.4, falling to 2.0, and then falling to 1.8, 1.6 and 1.4 per cent.

Compared to a deficit equivalent of over £100 billion in a single year in the early 1990s, the figure for this and future years will be £35 billion - over 1 billion less than forecast at the Pre Budget Report - then 34, 30, 28, 26 and 24 billion - borrowing over the cycle not for current consumption, but for essential investment in our future.

So having met both our fiscal rules we can now take forward the final work for our next three year spending round to 2011.

With interdepartmental reviews including on youth services and disabled children, mental health and employment, and the future of our regions and localities all nearing completion, we will now - in advance of the final public expenditure allocations - which will be published in the autumn - set in place a national regional and local consultation to discuss and debate issues which arise from the work already underway. Our aim: to build a stronger shared national consensus around future priorities.

But I am also able to announce now reforms that will release resources for priority services.

In the Pre Budget Report in December I said that from now to 2011, asset sales would release £18 billion for front line services. But because I can announce today the sale of spectrum, a £6 billion

sale of the student loan book, and further financial and corporate sales at home and overseas, asset sales will rise from £18 billion to £36 billion.

I have agreed with departments savings in administrative costs worth by 2010-11 £1 billion a year, which will also release money for front line services.

The same front line services will benefit from below-inflation spending review settlements for departments at the centre of government - DWP, HMRC, Cabinet Office and the Treasury along with DCA and the Attorney General's departments - releasing for front line services £2 billion.

And with efficiency savings of 3 per cent each year we release, in total, £26 billion a year by 2010-11 for front line services.

Just over a decade ago, when unemployment and debt were high, as much as three quarters of all new public spending went to pay for debt and social security costs, leaving only one quarter of new spending for health, education, transport, defence and policing.

Because of our success in cutting debt interest by a quarter and claimant count unemployment by a half, these front line services will, in the coming spending round, receive not 25 per cent but 75 per cent of all new spending.

In this new spending round our aim has also been - in line with the Gershon Report and with continuing reform - to ensure that resources for improving the front line services, our service priorities, will continue to grow at the 4-4.5 per cent yearly rate of this spending round.

And Mr Deputy Speaker these four major levers of change

- better use of assets,
- cutting administrative costs,
- efficiency savings; and
- lower debt and unemployment

will allow me to release new money for front line priorities and I can now set out total expenditure for each year to 2011.

In 1997 capital investment in schools, hospitals, security and defence and infrastructure, stood at just £18 billion. I can announce that investment will rise from £43 billion this year to £48 billion next year and then in successive years to 52, 55, 57, and then 60 billions, more than three times what it was in 1997 as we invest in our future.

And consistent with the figures set out in the 2005 and 2006 Budget and the most recent Pre Budget Report, I can announce total expenditure which is £552 billion this year, will rise by £34 billion next year to £587 billion, and then rise in 2008 by £29 billion to £615 billion, rise in 2009 by another £29 billion to £644 billion, and then in 2010 by an additional £29 billion to £674 billion, as we continue to invest in the future.

And for the year to come, I can also allocate money to security and defence.

At all times, as the Prime Minister and Home Secretary have emphasised, we will put the security of the country first. So, for the coming year intelligence and counter terrorism will receive an additional £86 million pounds.

Our Budget for security and intelligence, which was just £1 billion in 2001, will now be for 2007-08, £2¼ billion.

We owe a huge debt of gratitude to our armed forces. And to support those who serve us with courage and distinction in Afghanistan, Iraq and in other demanding international commitments, I am allocating the Secretary for Defence an additional £400 million.

For the coming year starting next month in April, I can confirm that the money available for investment and reform in the NHS in England will be 8 billion pounds more than this year, the biggest cash increase ever, a cash rise of 10 per cent - 7 per cent in real terms. And for the future years from 2008 to 2011, allocations for the NHS will be made in the Spending Review later this year. Taking the whole of the United Kingdom together, I expect total additional expenditure on the NHS from April to be almost £10 billion above this last year - also a 10 per cent rise.

I have examined a proposal however to introduce what is called a third fiscal rule. But it would require us to cut spending from this year alone by £21 billion. And I have rejected it.

Mr Deputy Speaker, in setting the right balance between tax, spending and the stability of the economy, we will not take risks with or break from the stability essential to our long term economic performance.

Let me be absolutely clear: with the economy growing strongly, faster than any other major economy, this is not the time for a fiscal loosening and the changes I make today will be broadly neutral for the public finances and overall - which is the right decision for Britain at this time in the economic cycle.

But it is also right today to proceed today with major reforms and modernisation that will prepare and equip Britain for all the long term challenges we face; reforms that are now possible because they build on the greater stability employment and investment of the last ten years - and reforms that focus on three major priorities vital for our country: first, promoting long term investment and environmentally sustainable growth necessary now and in the future to Britain's success in the global economy; second, encouraging and rewarding work and savings vital to the week to week prosperity of every family in Britain; and third, supporting and strengthening families essential to the welfare of parents and children and the stability of family life.

First, to lead in global competition - and particularly to secure our place in the high value-added, investment-driven growth sectors of the future from modern manufacturing and the creative industries to business and financial services and the city - Britain must champion open markets flexibility and free trade - an open and inclusive globalisation, not protectionism.

And here the right policy is to combine the most modern and flexible competition regime including, as announced today, the further extension of risk based regulation - into employment tribunals - with the most effective incentives and support for British investment and British innovation.

My view is that in all advanced economies, public and private investment in the great new drivers of growth, innovation and education, will need to rise towards 10 per cent of national income. And as part of our plan to double investment in science, I can announce that in the next four years public investment in science will rise from £5 billion this year to £6.3 billion by 2010-11 - a 25 per cent cash increase.

And the Secretary for Industry is also today announcing a £100 million competition for Britain to lead in high tech innovation - challenging universities and businesses to come together, from medical research to environmental transport, to convert British scientific breakthroughs into British commercial success and jobs.

In 1997 I cut corporation tax - from 33p to 31p and then 30p. Having continued to look carefully at the requirements for a modern corporate tax system for the global economy I propose the following changes that reflect the increasing importance in investment decisions of R&D, skills, intellectual property and environmental innovations.

I propose to modernise the system of capital allowances - many first introduced for the needs of the post-war economy - by simplifying them to just two categories based on how long an asset will actually last.

I will provide more generous annual relief for long life assets, raising the relief from 6 per cent to 10 per cent, at a cost to the Treasury of £380 million in 2009-10; while phasing out the relief worth £230 million originally intended for industrial buildings but now poorly-targeted; and I will align allowances for plant and machinery with the economic rate of depreciation at 20 per cent.

At the same time I will increase the value of the main R&D credit by an extra £100 million; and expand the scope of environmental capital allowances by an extra £40 million; while leaving the overall tax rate for North Sea companies unchanged.

And from April 2008 for all businesses I will put in place a new annual 100 per cent investment allowance of £50,000.

Mr Deputy Speaker, because our goal is and will continue to be the most competitive business tax rate of the major economies, I have decided to cut mainstream corporation tax from April 2008 from 30p down to 28p - at 28p a rate lower than America, Germany, France, Japan, and all of our

other major competitors - Britain's corporate tax rate, the lowest of all the major economies.

Changes I will announce later in this Budget will also improve the position of the self employed. But I do need to act to deal with individuals artificially incorporating as small companies to avoid paying their due share of tax, a practise if left unaddressed would cost the rest of the taxpaying population billions of pounds. And I will take action in a way that will not raise the tax burden on the self employed and small businesses overall.

To reduce the tax difference between self employment and small company incorporation, I will raise the small companies' rate in three stages from 20p this year to 22p in 2009, recycling all these revenues to legitimate small businesses investing for the future.

Small firms will be able to claim the new 100 per cent relief for new capital investment up to £50,000, claim a 175 per cent tax credit for R&D, and claim the new tax credit for environmental investment. A small company with profits of £150,000 and investing £50,000 of this will effectively pay tax of just 15 per cent, and a firm investing the same from profits of £100,000 tax of 11 per cent - lower than today.

I have one further announcement. When the Northern Ireland Secretary and I meet all the Northern Ireland parties tomorrow morning, we will announce details of a new Northern Ireland innovation fund, a new fund for industry and jobs to be available for a restored executive we all want to see.

Mr Deputy Speaker, six months ago when we published the Stern Report on climate change, we set a framework for environmental action combining a call to personal and social responsibility, with European and international cooperation.

Since then we have secured support for a strengthened European carbon trading scheme on the road to a global scheme; a new agreement for 2020 on cutting European emissions by at least 20 per cent and potentially 30 per cent; and I can report also that we have also agreed bilateral partnerships with China on clean coal; Brazil, Mozambique and South Africa on biofuels; India on clean energy investment; Mexico on carbon markets; and Norway on carbon capture and storage.

And the Secretary for Industry is announcing today that Britain will launch a competition to go ahead with our first British full-scale carbon capture and storage demonstration.

Britain will also lead the way working with helping developing countries to address climate change. And I can announce financial support of £50 million for a pathbreaking ten country initiative across central Africa to prevent the destruction of the second largest rain forest in the world. Led by Nobel Prize winner Wangari Maathai it will help the livelihoods of 50 million people now under threat.

Environmental action requires us to cooperate internationally in new ways. To help meet our commitment to international poverty reduction through environmental protection I will allocate to the Environmental Transformation Fund, jointly run by the Secretaries for International Development and the Environment, a total of £800 million.

Mr Deputy Speaker, at home as abroad the test we must apply is what is the most environmentally effective, economically efficient and socially equitable way of reducing emissions both immediately and in the long term - first, through better information and incentives, and second, through higher standards and investment.

Homes account for one quarter of carbon emissions: our objective for Britain is low carbon homes benefiting the climate through lower emissions, and benefiting consumers through lower bills.

Having already announced measures to speed up home insulation and to design out energy wasting products, I have been consulting with the major banks and building societies and encouraging them to create a new market - mortgages for immediate capital investment in energy efficiency that cuts consumption and cuts bills that in the end not only pays for itself but increases the sale value of the home.

To play our part, I am offering grants of £300 to £4,000 for pensioners installing insulation and central heating in their homes; will have, from next month increased by 50 per cent to £18 million microgeneration grants for homes; can confirm that until 2012 all new zero carbon homes up to half a million pounds will be exempt from stamp duty; and have asked Ofgem to examine how green homes can benefit more from the prices paid when they become not just sources of clean energy for themselves, but sell it back to the grid.

I am placing in the library of the House of Commons the representations the Foreign Secretary and Minister for Europe and I are making to European Ministers for a European-wide decision that would reduce the rate of VAT from 17.5 per cent to 5 per cent on energy saving and environmentally friendly products in the home.

Business accounts for 40 per cent of emissions: our objective for Britain is that we have not only the most economically competitive but environmentally sustainable companies. And since 1997, business and government together have achieved a 25 per cent reduction in the carbon intensity of the economy.

And to complement our new environmental tax credit worth £40 million a year to business, the advice support and incentives available from Business Links and the Regional Development Agencies to small businesses for environmental improvement, innovation and energy audits will rise from this year's £140 million to, in the coming year, £240 million.

To encourage recycling and to reduce landfill, the landfill tax will, from April next year to 2011; rise by 8 pounds each year, and to reduce the environmental impact of quarrying, the aggregates levy - which has been frozen since its introduction - will rise in April 2008 from £1.60 to £1.95 per tonne.

These measures, our membership of the European emissions trading scheme and an inflation increase from next April in the climate change levy, will together each year contribute 16 million tonnes of carbon reductions.

As recommended by the Barker Report and now today by the Lyons Report and in line with representations from the Federation of Small Businesses, commercial property lying empty should not continue to be given generous business rate relief, particularly because this leads to higher rents in areas with highest demand.

So to encourage better use of commercial premises I will restrict the relief available for empty industrial properties to 6 months, and for empty offices and retail to 3 months. There will be special exemptions for charities.

Transport accounts for a quarter of emissions: our objective for Britain is the lowest carbon cars using the least polluting fuels.

Average new car emissions are today around 167 grams of carbon dioxide per kilometre. A medium term objective is 100 grams. We want Britain to lead in developing the next generation of low and no carbon vehicles and fuels. And to report on this the transport secretary and I have invited Sir Nicholas Stern and the Vice Chancellor of Aston University, Professor Julia King, to report to us on the energy saving potential of innovation in this area.

Our renewable transport fuel obligation means biofuels will, by 2010, account for 5 per cent of all fuel in road vehicles and by 2020 potentially 10 per cent. I am extending to 2010 the biofuels duty differential worth 20p per litre, a fuel duty discount of 40 per cent; and I am also extending to 2012 the biogas incentive worth 40p per litre, a discount on fuel duty of over 80 per cent.

For this year I will maintain the differential for rebated oils. I can also announce that the government will triple its funding for targeted enforcement against unfair competition from haulier companies from outside the UK.

From a one band system of VED we inherited in 1997, Britain now has environmentally-graduated bands - one reason why the proportion of least polluting cars on our roads has risen by 30 per cent, while that of the most polluting cars has fallen.

So there are potential gains from enhancing this incentive. In addition to maintaining a zero rate for the lowest band, aligning petrol and diesel rates at the diesel rate, and raising the rates by £5 each year for the next three years, and for band F by 10 pounds this year, I propose an immediate 30 per cent cut in band B from a top rate of 50 pounds down to 35 pounds, to be matched by moving the top band 30 per cent higher to £300 and then again to £400 next year - measures that will taken together cut vehicle emissions since 1997 by two million tonnes.

For the coming year I will set fuel duty rises at 2p a litre, for 2008 at 2p, and for 2009 1.8p. But I will defer this year's annual fuel duty increase by six months to October.

Mr Deputy Speaker, I have had representations to put VAT on airline tickets, a 17.5 per cent rise in airline ticket prices. I have investigated the detail of this proposal. It gives me no pleasure to tell

the House that the substance of this measure has not been properly thought through. It would apply only to domestic flights, business would be able to claim back VAT, and even by 2020 it would save just 50,000 tonnes of carbon - less savings in one year than achieved by the climate change levy in just one week. So I have rejected this proposal in favour of the 6 million tonnes of carbon saving achieved by the fairer and more environmentally efficient measures I have outlined in the Budget today.

I propose only the normal indexation of alcohol duties. From midnight on Sunday, beer will rise by 1p a pint, cider by 1p a litre, wine by 5p a bottle and sparkling wine by 7p. But for the tenth Budget in a row I will freeze duty on spirits.

While I will go ahead from 6pm tonight with the annual inflation rise on a packet of 20 cigarettes, of 11p, I want us to do more to support the health advice campaign, initiated by the Health Secretary, with a new incentive to encourage people wishing to give up smoking. For one year from July 1st for nicotine replacement and other products that help smokers to quit, I am cutting VAT to the lowest I can, from 17.5 per cent to 5 per cent.

I propose to align the bottom two rates of gaming duty at 15 per cent, and for the largest casinos set a 50 per cent rate.

Our culture of giving and volunteering defines Britain as a fair and compassionate society. To help small local community organisations the Minister for the Third Sector is today announcing for the years to 2011 a new fund worth £80 million for local communities. Hundreds of millions of giving is eligible for tax relief through gift aid, but is not currently claimed. The Chancellor of the Duchy of Lancaster and I will consult with the charitable sector on measures we will fund to increase take up.

And in the run up to the Spending Review, the Culture Secretary and I will examine the help we can give the churches and heritage buildings that are at the heart of so many communities.

I turn now to new tax incentives designed to help more people into jobs and to make work pay.

Over one and a half million low income workers receive the working tax credit, worth to them on average £48 a week.

Indeed, in making work pay, people on low incomes get more benefit from the working tax credit than either the minimum wage or any other tax measure, whether it be the 10p rate or personal allowances.

If I invested £1 billion in helping low income workers through raising personal allowances they would be only 68p a week better off. If I used the same money to lower the 10p rate, they would be just 67p a week better off. But by using the same money to extend the working tax credit they are £7.10 a week - £370 a year - better off, a clear incentive to take jobs and to gain skills and to work your way up from a lower paid job to a better paid one.

So this Budget invests over £1 billion a year in raising the value of the working tax credit, so that building on the minimum wage of £5.52 from October, for the parent in full time work with one child it will rise to £7.70 - because of the working tax credit £290 for a 35 hour week.

Since 1997, lone parent employment has risen from under 45 per cent to over 56 per cent - with now 300,000 more lone parents in work. In addition to increasing the working tax credit, I will also extend the £40 a week in- work bonus paid to lone parents for their first twelve months in work. In London this bonus will now be 60 pounds a week. And for up to 50,000 workless parents undertaking training I can announce access to extended and free child care.

With this additional support to make work pay and our new conditionality, and building on the successful employer partnerships of the new deal, the Secretary for Work and I am now able to announce a partnership for jobs with our major retail companies - Tesco, Sainsbury's, Asda, B&Q, Marks & Spencer, and the British Retail Consortium - an agreement that in every part of the country, unemployed men and women who successfully pass work trials or induction courses will be considered for jobs by these leading firms a new and innovative partnership that will, across the sector over the coming five years, help create 5,000 jobs for the unemployed in Wales, 10,000 in Scotland, and, in total for Britain help 100,000 men and women find employment.

Since 1997, the numbers of 16-24 year olds in full time education, employment or training has increased from 5.2 million to 5.8 million. But for those who have fallen through the net, over the

next spending period we will do more. So I am setting aside new funds today so that 50,000 16 to 17 year olds who sign activity and learning agreements will receive a training wage in return for gaining skills.

For small companies who take on an employee needing to acquire the most basic of skills, we will, in the period from now to 2011, offer £2,000 training help per employee and in some cases £3,000.

There are 125,000 people who, through no fault of their own, when their employer became insolvent, lost their work pension. And the Secretary for Work and Pensions is announcing that he will extend the Financial Assistance scheme from its present budget of £2 billion to a total of £8 billion so that every one of the 125,000 workers will now receive help. And reporting later this year he will investigate, in full, the assets within the affected schemes and how we can use them further to support affected pensions.

Mr Deputy Speaker, in meeting our objectives to support families and children, I have received representations for the return of the married couples allowance, and for a transferable tax allowance between husbands and wives with children under five.

On closer inspection I have discovered that such a proposal would penalise 3 million widows and their children who would be denied the allowance, and would also penalise wives or husbands left by their spouse. And I have discovered that a transferable tax allowance earmarked for families with children under 5 would be available to just 1 million married couples. And I can tell the House that far from rewarding marriage would exclude the vast majority of married couples - 11 million married couples and 11 million children excluded and left out.

Mr Deputy Speaker you do not support marriage by penalising most married couples and 11 million children.

Mr Deputy Speaker, it is right to recognise marriage in the tax system in ways that do not penalise children through the arrangements we make for assets to be transferred free of tax between husband and wife in inheritance tax and capital gains tax.

I can announce the annual tax exemption for capital gains will rise from £8,800 to £9,200, and will be £18,400 for married couples.

I can announce the inheritance tax allowance which is £285,000 today, and will rise in each year, will in 2010 be increased to £350,000 - ensuring that 94 per cent of estates will not pay inheritance tax.

And I am also making changes in VAT today which will especially help grandmothers and grandfathers living with their sons and daughters. I can announce that for a specified list of alterations to housing, to support the needs of older people I will reduce the rate of VAT from 17.5 to 5 per cent.

For many families, especially young couples, the major concern is affordable homes. And to further our ambition for this Parliament and the last of 2 million new owner occupiers, the Secretary for Communities is today launching the first stage of a new shared equity competition that will bring homes within the reach of first time buyers.

And Mr Deputy Speaker, I also want to send a signal about the importance we attach to encouraging savings. So while maintaining our savings tax rate at 10p, I will extend for the 17 million men and women with ISAs the amount of cash that can be saved tax free from £3,000, raising it by 20 per cent in April 2008, to £3,600. Detailed announcements about the extension of the Saving Gateway for low income families will be made as part of the Spending Review.

But Mr Deputy Speaker, after independent taxation was applied by the previous government to income, there has been general agreement that the best way to help the income of families with children is to raise child benefits and to help all children.

For the first child of all parents, child benefit was £11 weekly in 1997. This year it is £17.45. I can announce today we will raise child benefit annually for the first child in three successive stages to 2010 - raising child benefit by a total of 15 per cent to 20 pounds.

So child benefit, which was £575 a year in 1997 will, by 2010, be over £1,040.

For 6 million families on both child benefit and child tax credit - that is the vast majority of families - the minimum payment which was just 11 pounds in 1997 will rise to £31, a rise from £575 a year to £1,600 a year.

And I can also do more to help those who need it most.

Help for the poorest child, which in 1997 was £28 a week and is today 61 pounds, I will now rise in three successive stages by more than 25 per cent to £75 a week, almost three times the 1997 level, not £1,400 per year as it was in 1997 but £3,900 per child per year.

Measures that overall lift out of poverty 200,000 more children.

And with children's credits offsetting income tax liabilities, the effective point at which a family with two children starts paying income tax which was £16,000 in 1997 and which is £22,500 now, will be £24,250 in April 2009 - tax credits effectively wiping out income tax liability until earnings of £450 a week.

And we will match financial support for children with more help for parents to do the best by their children. I have set aside today funds for expanding Childline, Parentline Plus and the services parents and children use and rely upon.

We now know the importance of early years learning in developing the talents of children and the significance of investment early to determine the qualifications and success they have later. So the Education Secretary and I have today made available the funds for each of the years to 2010 to honour our promise that there will be six children's centres in the typical constituency, 3,500 in total.

And we have also set aside funds for the years to 2010 so that we can expand the numbers of hours of free nursery education, meeting our promise to raise nursery hours for every three and four year old from twelve and a half hours a week to fifteen.

And to encourage the community use of schools' sports facilities we will remove the VAT restriction and enable our academies to make their sports facilities available to their local communities.

Mr Deputy Speaker, I am also able today to take several hundred thousand of today's pensioners out of income tax.

When we came to power, elderly citizens started to pay income tax when their income exceeded £5,200. Today no tax is paid before an income of £7,280. For those under 75, the tax free allowance will rise in three stages from £7,280 now to £8,990 in 2008, to £9,500 in 2010 and £9,770 in 2011, almost twice as much as in 1997. For those over 75, the tax free allowance will rise annually from £7,420 to by 2011 £10,000. Couples under 75 will have a tax free married allowance up to £19,540; for a couple over 75 up to £20,000.

Measures in this Budget mean that we will lift out of income tax a total of 600,000 pensioners.

For elderly people with either no works pension or small works pensions, I can confirm we will raise the pension credit guarantee from £114 a week this year, to £119, then £124, increasing to £130 a week in 2009-10 - £6,750 a year - the pension credit raised by earnings as we move towards our commitment of linking the state pension to earnings.

So Mr Deputy Speaker, I have focused support on families by raising child benefits and child tax credits, taking 200,000 more children out of poverty; done more to support pensioners taking 600,000 out of tax by raising the level of tax free allowances; and I have improved work incentives for lower income families with children by raising the minimum income from work to make work pay - to, for many, £290 for a 35 hour week.

My aim in all measures today: a fair system for pensioners and families with children.

So having put in place more focused ways of incentivising work and directly supporting children and pensioners at a cost of £3 billion a year, I can now return income tax to just two rates by removing the 10p band on non savings income.

I can also announce that the point at which people start paying top rate income tax will, from April 2009, not be annual income of £38,000 but £43,000; and I will align the income tax with the

national insurance system with its ceiling set at the same single threshold - £43,000 - thereby creating a tax system for income that has just two rates and two thresholds.

Mr Deputy Speaker, as a result of all the measures taken today, 58 per cent of pensioners over 65 will not pay income tax; 6 million out of 7 million families with children are better off; and the incentive to work is increased by up to £350 a year.

And with the decisions I have made I am also able to announce that we will invest more in our schools and education.

Separate announcements will be made later for Scotland, Wales and Northern Ireland.

Education spending in England which was £29 billion in 1997 and is £60 billion this year, will be £64 billion next year, £67 billion the year after, then £70 billion, rising in 2010 to £74 billion for education.

Average rises of 5 per cent cash each year for the next three years: enabling us to provide one to one tuition for 600,000 children, do more to double apprenticeship numbers to 500,000, increase higher education student numbers to 1.2 million, every school to be an extended community school; cash spending per pupil which was £2,500 in 1997 will from now to 2010 rise by a further 20 per cent, 10 per cent in real terms, to £6,600 - continuing to narrow the gap in investment per pupil between state and private schools.

Education spending rising as a share of national income from 4.5 per cent in 1997 increasing to 5.6 per cent in 2010.

And as the Education Secretary will set out by changing the education leaving age, we will, for the first time in our country's history, make education a right for every young person until 18.

So Mr Deputy Speaker today I have taken 600,000 pensioners out of tax, raised child benefit in 3 stages to 20 pounds, cut corporation tax from 30p to 28p, increased education spending to the highest level ever.

A Budget for Britain's families, for fairness, and for the future.

And I have one further announcement.

With the other decisions I have made today we are able to hold to our pledge made at the election not to raise the basic rate of income tax.

Indeed to reward work, to ensure working families are better off, and to make the tax system fairer, I will from next April cut the basic rate of income tax from 22p down to 20p.

The lowest basic rate for 75 years.

And I commend this Budget to the House.