GOVERNANCE AND PUBLIC POLICY

Diploma stage examination
9 June 2005

PRE-SEEN MATERIAL

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You should note that the purpose of this pre-seen material is simply to familiarise yourself with the case scenario.

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Full text of Gordon Brown's budget statement to the House of Commons Wednesday March 17, 2004

The purpose of this budget is to lock in, for Great Britain, an economic stability that can and will endure.

And it is a sign of the stability Britain has already achieved, and a tribute to the dynamism and hard work of the British people, that:

- even after the creation since 1997 of 1.8 million new jobs, 1.3 million in the private sector, and over 100,000 extra businesses;
- today and every working day another 600 new businesses are starting up, 25,000 men and women each and every day are finding new jobs and an additional 10,000 new vacancies are each day being advertised - with new jobs being created at three times the rate of the 1970s, 80s and early 90s.

For decades after 1945, Britain repeatedly relapsed into recession, moving from boom to bust. But I can report that since 1997 Britain has sustained growth not just through one economic cycle but through two economic cycles, without suffering the old British disease of stop go - with overall growth since 2000 almost twice that of Europe and higher even than that of the United States.

Indeed in the pre-budget report I told the House that Britain was enjoying the longest period of sustained economic growth for more than one hundred years. Mr Deputy Speaker, I have to apologise to the house. Having asked the Treasury to investigate in greater historical detail, I can now report that Britain is enjoying its longest period of sustained economic growth for more than 200 years...the longest period of sustained growth since the beginning of the industrial revolution. And with Britain not only more stable but better off than seven years ago, it is time for us, facing new global economic challenges, to combine a new confidence about Britain's economic potential with a new resolve to make the right long term choices and reforms to achieve excellence in education, science and enterprise. Challenges which no industrial nation can ignore; where other nations are moving forward; and in which I want Britain to lead.

Our advantages, as an island nation, are a global reach wider than almost every other industrial country, a historical record of scientific achievement longer than any other country, a foundation of political and now economic stability that goes deeper than any other country. And this budget's judgment is that to be a world economic leader in this new global era, we must now also make the necessary investments in science, education and enterprise.

Mr Deputy Speaker, last year we forecast growth for 2003 of between two and two and a half percent. When I made that forecast a year ago the opposition said that it was not just incautious and wrong but - and I quote - 'a deliberate misrepresentation' of Britain's economic prospects and not to meet it 'destroyed credibility'. I can now report to the country that our growth in 2003 has indeed met our forecast. The British economy grew in 2003 by 2.3 per cent.

And it is because of Bank of England independence, new fiscal rules, the sanctions of the New Deal, and the reduction of national debt - it is because Britain had the strength to take these long term decisions - that, over the last four years, while economic growth in Germany averaged just 0.9 per cent; Japan 1.4 per cent; Italy 1.4 per cent; France 1.8 per cent; the euro area 1.6 per cent; and the United States 2.4

per cent; growth here in Britain has averaged 2.5 per cent. And it is growth combined with, consistently, the lowest inflation for 30 years, the lowest interest rates for 40 years and the highest levels of employment in history.
In the past Britain has been first in, worst hit and last out of world recessions.

But in recent years, in contrast to the previous two world downturns in both the early 1980s and in the early 1990s:

- employment which fell by 1.3 million in the early 80s downturn and 1.5 million in the early 90s downturn this time has not fallen but risen with - as today's employment figures confirm - claimant unemployment at 2.9 per cent, the lowest since 1973, Britain today closer to full employment than for a generation;
- inflation which rose to 20 per cent in the 80s downturn, and to almost 10 per cent in the early 90s has this time averaged 2.4 per cent;
- interest rates which peaked at 16 per cent in the 80s downturn and at 15 per cent in the 90s are today 4 per cent; and mortgage rates which rose to around 15 per cent in both the early 1980s and early 90s are 5 per cent today, still the lowest for forty years.

And now having come through the world downturn and as trade strengthens - rising this year by seven and three quarter per cent - the challenge for British industry is to make the most of the new opportunities of the world upturn. We expect domestic demand to grow by three and a half per cent this year and by three and a quarter per cent in 2005 as consumer spending moderates and growth becomes more balanced. And our belief is that British manufacturing and service industries will rise to the challenge. Fixed investment which has fallen round the world is expected to grow in Britain by more than 5 per cent this year and more than 6 per cent next year, and business investment by just under 4 per cent this year and 6 per cent in 2005. Manufacturing output which was most affected by the global slowdown has now grown in four successive quarters and is now expected to grow in Britain by just under 2 per cent this year and 2 per cent next year. And imports and exports are both expected to grow by more than 5 per cent this year.

So, overall, I can report a British economy strengthening through 2004. While always vigilant to the risks, growth in 2004 is expected to be: 1.7 per cent in France, Germany and the euro area; 2.8 per cent in Japan; but between three and three and a half per cent in Britain; with, of the G7 countries, Britain and America again growing fastest. And I can confirm that under our new target, inflation is expected to be just 1.75 per cent this year, and 2 per cent next year and the years after.

Our long-term stability and strength depends on avoiding the two great economic mistakes of the past; so there must be no weakening of anti-inflation discipline and no neglect of investment in our wealth-creating base. And based on sound fundamentals, monetary and fiscal discipline, and making the right decisions at the right time in the economic cycle to invest in education, science and enterprise - Mr deputy speaker, based on these sound fundamentals, I can forecast growth in Britain in 2005 to be three to three and a half per cent and in 2006 to be two and a half to three per cent as the economy returns to trend.

Looking further forward, while vigilant to the global economic cycle, the challenge is to strengthen the British model for stability and our objective must be to lock in that stability - not just for a year or two, or for an economic cycle, but for a generation. So a year ago I initiated a series of studies to examine how we can tackle potential inflationary pressures in housing, and potential bottlenecks and deficiencies in the supply side of the economy; how we can deal with potential fiscal pressures from ageing, health care and the costs of unemployment; and what are the most appropriate fiscal rules for the long-term.

Last week Professor David Miles recommended a more transparent and competitive market in mortgage finance, a set of recommendations that will now be considered by the government and the Financial Services Authority. The report by Kate Barker published today concludes that the supply of new homes consistently lags behind demand and that the numbers of houses built in Britain - currently 175,000 a year - must rise substantially if we are to reduce house price inflation and increase the number of affordable homes for people wishing to buy and rent. The government today accepts the Barker recommendations for British real estate investment trusts to improve the supply of rented property; for the release of more public sector land; for - in each region - one body responsible for housing and planning; and, in principle, for extending the contaminated land credit in brownfield areas. And the deputy prime minister will now consult on how we can increase the supply and affordability of housing, and what goals we should set, while striking the right balance between the economic and social case for development and environmental and housing needs.

While the business rate sets a tax on developed properties, the Barker report states that there is none on the unearned increment in land values when undeveloped land is granted planning permission. Because this is a long-term issue for both housing and stability, the way forward is not only to consult widely but to see whether a long term consensus can be agreed. So I hope that over the next year all parties will study the Barker proposal and it must be in the interests of the whole country to see whether we can forge a shared approach that would safeguard our environment, lead to more affordable housing and at the same time keep interest rates as low as possible and contribute to the greater economic stability of Britain.

Last year we identified the housing market, housing finance and other inflexibilities in capital, product and labour markets as major barriers to meeting two of our five tests for euro membership. Today we are publishing - alongside the budget - a detailed report on flexibilities in Britain and Europe - and I can inform the house today that while the government does not propose a euro assessment be initiated at the time of this budget, the Treasury will again review progress at budget time next year and report to the House.

Fiscal discipline is and must be at the heart of our strategy for long-term stability. So we have studied the three main sources of fiscal pressure in the advanced industrial economies: unemployment costs; pension costs in Europe - with state pensions costing up to 15 per cent of national income by 2050; and the rising cost of public sector subsidies for private healthcare - as in the USA. We have concluded that it is prudent for Britain to take further steps to move the unemployed from welfare to work; and right also to maintain a rising level of pension credit rather than to link pensions to earnings and to avoid uncapped public sector liabilities from subsidies to private health care.

I have studied proposals for alternative approaches to the fiscal framework. And today I am publishing a paper comparing our British framework with the rules of the European Union's Stability and Growth Pact and examining the principles, based on our experience, which should guide the evolution of fiscal policy. And the conclusions of our study are:

- First, the flexibility to take the right monetary and fiscal decisions at the right time to sustain stability and growth requires countries to take tough decisions to achieve low levels of long-term national debt.

- The second principle identified by the study is that, based on low levels of public debt, fiscal policy can and must take account of the economic cycle - supporting monetary policy by allowing borrowing to rise when the economy grows below trend and reducing borrowing when the economy is above trend.
- The third principle identified by the study is that it makes sound economic sense for low debt countries like ours to borrow for investment.

Rigidly balancing the budget year on year means that fiscal policy could not support monetary policy over the cycle and, even in low debt countries, the debt to GDP ratio would fall year on year even when it is obvious that more investment is important to the long-term strength of the economy.

Our fiscal rules - to keep the debt to GDP ratio low and stable while balancing the current budget over the economic cycle - allow us to borrow for investment every year of the cycle and these rules have now been tested and have succeeded at every stage of the economic cycle. So it was in the national interest: firstly, to follow rules on debt and cut debt in the late 1990s; secondly, to enable fiscal policy during the recent world downturn to support monetary policy; and thirdly, now and in the future, on the basis of low public debt, to borrow for investment to strengthen our economic fundamentals.

So I will not neglect the need for long-term investment and impose an annual balanced budget rule - which would cut spending regardless of the debt level or the economic cycle. Such a policy - whether imposed by a future government or a rigid interpretation of the European Stability and Growth Pact - would, in fact, be an exact repeat of the mistakes of Britain's “stop-go” past and put at risk British stability and growth.

I welcome the support for our monetary policy framework that I have received - of late - from Opposition parties. But the experience of the past few years is that stability requires support for both pillars of our British macroeconomic framework - monetary and fiscal policy working together.

Let me set out today's detailed fiscal figures. Our projections are based on assumptions audited by the National Audit Office which include, for public finance purposes, trend growth at two and a half per cent rather than two and three quarters per cent; and do not take full account of expected gains from lower unemployment, compliance and VAT receipts. After all the decisions announced today, our current budget figures for 2003-4 - and for the years to 2008-9 - are -£21.3 bn, -£11 bn, -£5bn, zero, £4 bn and £9 bn.

Our first fiscal rule is that over the cycle we balance the current budget. Having accumulated surpluses at the start of the economic cycle, we meet our first rule, the golden rule. Indeed we have an average annual surplus over the whole cycle - an overall margin or surplus of £11 billion. I have also tested the golden rule against not just our cautious assumptions but also against a more cautious case and again the current budget moves back to balance by the end of the forecast period. The average current budget for the first four years of the next cycle is not just in balance but in surplus. So having met our rule in this cycle, we are also on track to meet it in the next.

Our second rule is our sustainable investment rule, demonstrating our ability to borrow for investment. I can report that debt this year is just 33 per cent of national income. Our rule is that debt should be kept below 40 per cent of national income and in future years it will be 34, 35, 36, 36 and 36 per cent. This compares with debt of 44 per cent in 1997. We meet our second rule over the cycle and in every year and by a margin in excess of £50 billion.

I turn to net borrowing. Compared with 8 per cent ten years ago, and an average of 6 per cent over the early nineties, net borrowing this year and future years to 2008-9 is, as a percentage of GDP, 3.4, 2.8, 2.5, 2.1, 1.9 and 1.6 per cent of GDP, with, for this and future years, the cash figures £37.5 billions, £33 billions, and then £31, £27, £27 and £23 billions. Net borrowing adjusted for the economic cycle, is just 2.4 per cent this year and in future years 2.1, 2.3, 2.1, 1.9 and 1.6 per cent of GDP. A decade ago after the end of the last world recession the British deficit was the equivalent of £90 billion pounds, around two and a half times higher than today. In fact, our deficit is now lower than all our major competitors of the industrialized world. As a percentage of GDP the deficit in 2004 is: 3.7 in Germany and France; 5.1 in America; 6.8 in Japan; but the comparable British figure is just 2.8 per cent. Net debt is now 45 per cent of national income in France, in America 50 per cent, in Germany 55 per cent, in Japan 86 per cent and in Italy 94 per cent - but this year in Britain just 34 per cent.

So with our deficits lower than our competitors, lower than in past decades - and with our debt lower than our competitors and lower than past decades - we meet both our fiscal rules.

And it is because of this that I am now able in this budget at one and the same time:

- to afford all our existing commitments including our ongoing and additional commitments in Iraq, Afghanistan and in the fight against terrorism amounting to £6 billion;
- to be able to set aside as a prudent margin £1 billion next year and £2 billion in future years as a reserve for Annually Managed Expenditure;
- and to have in addition the flexibility and freedom in this year's budget and the Spending Review to release extra resources for the nation's priorities.

Unemployment is now costing us £3 billion a year less than in 1997 and debt interest payments are costing us £7 billion less - a total of £10 billion less a year, part of the dividend from difficult decisions after 1997. And stability and growth themselves have yielded even greater gains, and they give us a clear budget choice as to whether to cut taxes, invest more, or cut borrowing. So I am able in this budget - with a strengthening economy and a strong and sustainable monetary and fiscal position - to set out the Government's choice on how to allocate these extra resources.

I have had a number of budget representations about priorities for tax and spending. The debate we now have about the nation's priorities and the choices we make will help determine the economic strength of Britain and the fairness of our country far into the future. I hope the whole House would agree that given Britain's position today and the challenges ahead, the priorities for our country are:

- first, not to endanger but to entrench the stability and growth we have achieved;
- second, not to imperil but, in supporting our armed forces and police, to ensure and enhance our security;
- and third, I believe the whole House also would want to ensure that all our citizens are fully prepared to meet the challenges of the global economy and to ensure also that the coming generation start from a position not of weakness but of strength.

As we make our judgments for the budget and Spending Review, one option - having secured, in recent years, the gain from stability and sustained growth - would be to cut borrowing or taxes. But on borrowing, as I have told the House, both debt and deficits are lower than our major competitors, much lower than in the past and well within our fiscal rules. And on tax, whilst I have raised national insurance to pay for the National Health Service, I have already cut long-term capital gains tax for business assets from 40p to 10p, introduced a 10p starting rate for income tax and in previous budgets since 1997 cut the basic rates of income tax, corporation tax and small business tax.

So let me now set out this budget's decisions on tax.
I have examined rates of corporation tax and capital gains tax. I have no need to raise them so I propose to freeze rates.

- On air passenger duty, on insurance premium tax, on vehicle excise duty for cars and lorries, I propose to freeze rates.
- On the climate change levy, I will freeze rates and at the same time extend the number of businesses who can benefit from 80 per cent discounts.
- On the aggregates levy, I will freeze rates - and in Northern Ireland extend the relief to cover all aggregates.
- On betting duties, I will freeze rates - and I will review the tax treatment of betting exchanges and their clients.
- On stamp duty, after recent trends in the housing market ....I will freeze stamp duty.
- On inheritance tax I will not only freeze rates but I will exempt more estates from inheritance tax raising the starting point for tax to £263,000. 95 per cent of estates will pay no inheritance tax at all.

Mr Deputy Speaker. For this budget's other tax decisions, my priorities are: the needs of enterprise; of ensuring fairness to families and pensioners; and the environment.

My priority for enterprise at this stage of the economic cycle is to encourage rising levels of investment. Venture capital is the seed-bed of future enterprise and so for the next two years, Venture Capital Trusts will secure tax relief for investments of up to £200,000 a year not at the lower rate of 20p but at the higher rate of 40p. From 1 April, firms with turnovers under £58,000 will not have to register for VAT - the most generous VAT threshold in Europe. And also from 1st April an additional 13,000 businesses will be eligible to benefit from simplified VAT accounting. And from next year in 2000 enterprise areas we will further increase the tax incentives to invest.

This government is determined to advance our goal of balanced economic growth to the benefit of every region and nation of the United Kingdom. So today the government is accepting and will implement the Lyons Review for the relocation of civil service jobs. We will relocate out of Whitehall a total of 20,000 public service jobs ... creating new employment opportunities in the regions and nations of our country. And today to further assist our regions and local communities, I can announce the details of the new local authority growth incentive under which local authorities who help create more local businesses will share the additional business rate income. For local councils in all parts of the country I am allocating resources for the next three years - a total of £1 billion extra for local services.

Mr Deputy Speaker, in the last seven years we have raised over £4 billion a year through the sale of surplus assets and land - and I can announce that for the years until 2006 we now expect the sale of surplus assets to raise over £5 billion a year for new investment. We are also selling off the last of the remaining government shareholdings in privatised utilities.

When we announced deregulatory measures in December, I said we would, working with business, identify further reforms both in Britain and in Europe. The Secretary of State for Industry is announcing that she will devolve Business Link services outwards to the regions and we will:

- review the burden of inspection and the overlap between enforcement regimes;
- sector by sector tackle unnecessary regulation starting with chemical, construction and retail;
- and having accepted the case for Inland Revenue paying the working tax credit directly to employees, we will consult with employers on detailed implementation.

And we have submitted today to the European Union our detailed proposals for tackling EU regulation. I would like to do even more to encourage new and growing businesses to invest and expand. I can only do so if we close a loophole under which some have, without changing their economic activity, used our zero tax rate - not to invest and grow but simply to avoid tax and national insurance by reclassifying their income as dividends.

There are those who have proposed that to tackle this avoidance we should abolish the zero and reduced rates altogether. Instead I propose to retain the zero rate and also the reduced rates for retained profit and indeed do more for investment ... But I will close the loophole by taxing distributed profits at 19 per cent, bringing the tax on distributed profits for those small companies into line with other companies.

To do more for investment, I will increase, initially for one year, investment allowances for the smallest businesses from 40 per cent to 50 per cent. So, overall, a small company making pre-tax profits of £25,000 and investing £10,000 in plant and machinery who paid over £5000 pounds in tax in 1997 will pay £2,375 - almost £3,000 less ... as we maintain and improve the incentive for small company investment.

Since 1997 support for the British film industry has been worth £2 billion and the number of films made here in Britain has doubled. I now propose to transfer the available reliefs for British made films with budgets below £15 million from the third parties, a minority of whom have abused them, and to pay reliefs directly to the film-makers themselves. The new relief, will be set at a new and higher level of 20 per cent.

It has been put to me that we should now introduce a general anti-avoidance rule. I do not at this stage intend to introduce this but I will today close loopholes in partnerships, finance leasing and VAT and make it a requirement - as in the USA - that accountancy firms and those promoting schemes register them with the Inland Revenue.

I turn now to the environment. I am pleased to report that as a result of the incentive I announced last year, the industry is ready, from September 1st this year, to move to the more environment-friendly sulphur-free fuel which will be available throughout the country. So I will delay, for the second year running, the annual rise in fuel duty for nearly six months. And while the duty rise for low-sulphur fuel will be 1.9p per litre, the duty rise for the new and soon to be standard sulphur free fuel will be from

September 1st just 1.4p, in line with inflation. I will also raise red diesel, fuel oil and liquid petroleum gas by 2.4p a litre. Total duty for fuel oil will still be just 6.24p a litre, duty for red diesel will be 6.64p a litre and duty for liquid petroleum gas will be 7.82p a litre. And to encourage cleaner fuels I will give the same incentive to bio-ethanol from January 1st next year as I am extending to bio-diesel: until at least 2007, a 20p per litre reduction in duty compared to petrol and diesel. And for the same environmental reasons I set out last year, I will go ahead with the changes we have already announced in landfill duty. Energy efficient technologies will be eligible for enhanced capital allowances.

From next Monday I will implement the normal annual inflation rise of 1p on a pint of beer, 4p on a bottle of wine. But I will freeze duties on cider and sparkling wine. And for small breweries, I will not only continue the successful tax relief scheme but extend it further and double the volume of beer production that is eligible for relief. I announced in the Pre-budget Report that - owing to continued high levels of spirits duty fraud - we would legislate to implement the Roques Report recommendation to stamp spirit bottles unless a workable alternative could be found. In making my decision that stamps are necessary to tackle fraud, I will help the trade financially with cash flow costs and defer payment for tax stamps and I will assist firms with capital investment. I have also decided - for the 7th budget in a row - to freeze spirits duty. And I will do so for the remainder of this Parliament - the longest freeze on duty in nearly half a century.

My decision on cigarettes is, for public health reasons, to go ahead with a rise but only the annual inflation rise of 8p a packet.

At a cost of £165 million by 2008-9, I will replace the eight existing tax schemes for pensions with a single lifetime allowance. I will set the allowance at £1.5 million for the first year of the scheme, from April 2006, and will set the allowance now for the years until 2010 when the figure will be £1.8 million.

Gift Aid is now worth £2.3 billion a year to charities and voluntary organisations who are at the heart of British civic life. I propose a cash incentive to encourage small and medium-sized firms to set up their own payroll giving schemes. With 2005 the British Year of the Volunteer, the Home Secretary and I will consider, in the Spending Review, new resources for two volunteering initiatives: first to encourage and extend mentoring; and second to encourage national community service by young people.

Churches and sacred places are not just an essential part of our religious life but an important part of the history and the fabric of our country. Before 2000 churches paid 17.5 per cent VAT on all church repairs. Since 2000 grants have covered 12.5 per cent of their VAT bill. I can announce that until March 2006 churches and sacred places will be able to reclaim not 12.5 per cent of their VAT bill but all 17.5 per cent of VAT, wiping out their liability in full.

2005 is the year where, as the Prime Minister has said, the needs of Africa will be the focus of the UK's G7 Presidency as a Presidency for development. I can tell the House that this Government will not freeze or cut the international development aid budget but increase it. Today I can announce matched funding for a year for the Commonwealth Education Fund which supports the objective that by 2015 every child everywhere has primary education and matched funding also for the Sports Relief charity which will work with Comic Relief in tackling AIDs and poverty in Africa.

Having made these decisions on tax and tax reliefs, the normal budget tables, published in the Red Book, confirm for the three-year period ahead that the budget measures are fiscally neutral. And the fiscal stance is unchanged from the pre-budget report.

In making my budget judgment I had a clear choice. Falling unemployment and low debt interest have themselves yielded an extra £10 billion this year over 1997; and stability and sustained growth are yielding additional revenues. The choice in this budget was whether to cut tax rates or to continue our programme of rising public investment in order to meet the priorities of delivering stability, security and economic strength.

We know, Mr Deputy Speaker, the scale of the threats we as a nation face to our security at home and abroad and the obligations we owe and the investment we need to support our police, security services and armed forces. And while our schools have 20,000 more teachers and 80,000 classroom assistants and our hospitals 55,000 more nurses and 15,000 more doctors, this Government holds firm to the belief that sustained investment is necessary to sustain world class public services.

We know also the scale of the economic challenges we as a nation face from global competition and I have no doubt that the nations that will succeed long term will be the nations that make the long-term choice to invest in the drivers of future prosperity - education, science and enterprise. And I hope all Members of this House would agree that if the long-term case for investment in the pursuit of excellence in education, science and enterprise is made, it is our duty in the interests of the whole nation to put short-term considerations second to ensuring that Britain is fully equipped to compete.

But because it is also our duty when we consider public investment to do everything to secure value for money, last year the Prime Minister and I decided to review the future of the Inland Revenue and Customs and for rural services, the Secretary of State for the Environment set up the Haskin's Review - and to prepare for the decisions of our 2004 Spending Review the budget of 2003, a year ago, we set up the Efficiency Review. We asked Sir Peter Gershon to work with us to identify how new technology, changing work practices and better procurement could free up resources in departmental budgets that we can allocate in the years ahead to front line services.

Alongside workforce reforms - in which the cooperation of public servants has been much appreciated - we are investing over £6 billion in modern technology - creating the potential for greater economies in back office and transactional services.

I will report in the Spending Review, on individual departmental plans but I can announce three decisions today.

- The Department for Work and Pensions - building on the merger of benefits offices and jobcentres, and the investment of £2 billion that has already been made in new technology - is able to unlock savings in back office administration and at the same time move resources to the front line to expand our successful service of personal advisers. While improving front line services, the Secretary of State for Work and I have agreed a reduction, by 2008, in the DWP budget of in excess of 5 per cent in real terms. And the Secretary for Work is announcing today for his Department a gross reduction of 40,000 staff posts, a redeployment of 10,000 posts to new priorities and thus an overall reduction over 4 years of 30,000 posts. Staff numbers will fall from 130,000 now to - by 2008 - 100,000.

- We are also announcing that as a result of the O'Donnell Review, we will merge Her Majesty's Customs and Excise and the Inland Revenue. Whereas in the past business had to deal both with the Revenue and Customs, business will now deal with a single tax service, which, because of the investment we have made in new technology, can make large savings in back office costs. While improving front line services, I have decided in the spending review on a budget reduction by 2008 of in excess of 5 per cent in real terms. The Inland Revenue and Customs and Excise are announcing today a gross reduction of 14,000 staff posts, a redeployment of 3,500 staff and thus an overall reduction by 2008 of 10,500 staff numbers.
- In these two departments covering 40 per cent of the civil service, there will be a gross reduction by 2008 of 54,000 posts. And after redeployment, an overall reduction of 40,500 staff. And the Government has also decided that in the Spending Review all departments will cut, by 2008, their administration budgets by at least 5 per cent in real terms. As part of his efficiency programme, the Secretary of State for Education is announcing today a 31 per cent reduction in headquarters staff by 2008 which will enable him to direct more funds straight to schools and spend more cash per pupil in the classroom.

By cutting in real terms the administrative budgets of departments, by reforming procurement both nationally and locally, by unlocking productivity gains from technology and workforce improvements, departments are to achieve - in the SR period - annual efficiency savings of 2.5 per cent a year, boosting effective front line service delivery by £20 billion a year by 2008. Mr Deputy Speaker, planned administration costs - which were an average of 5 per cent of total spending in the 1980s and rose to 5.7 per cent in the early 1990s - will fall to 4 per cent and then to 3.7 per cent by 2008 - the lowest level since the running costs regime was first introduced.

Having made these reforms I can now set the guidelines for overall public spending and investment to 2008. I have already allocated money for 2005-6 and I propose to confirm that allocation. I have also allocated funds to the National Health Service through to 2008. The Secretary of State for Health is reporting today that since 1997 there has been a 20 per cent per cent rise in elective admissions, a 66 per cent rise in MRI scans and 50 per cent rise in CT scans, a 50 per cent rise in the number of heart operations and that 99 per cent of cancer patients are now seen within 2 weeks of urgent referral. Of the 114 new hospital developments commissioned since 1997, over 40 have now opened. And to support the Health Secretary's plans for greater flexibility, diversity and local accountability, I can now confirm that as previously announced that the NHS will receive, each year to 2008, a 10 per cent cash rise, a 7.2 per cent rise in real terms.

And having made these allocations, I am still able to release substantial resources while meeting all our fiscal rules. In the years 2006-7 and 2007-8, current spending will rise by 2.5 per cent - in line with the our cautious view of the trend growth of the economy - and investment will rise to two and a quarter per cent of GDP, as we make up the backlog of investment whilst meeting our fiscal rules.

Let me set out the figures. Total Managed Expenditure will rise from £459 billion this year £488 billion next year to £520 billion in 2005-6 £549 billion in 2006-7 rising to £579 billion in 2007-8. This means we have in 2006-07, for Departmental and Annually Managed Expenditure, after our health allocations, additional resources available of £20 billion rising by 2007-8 to an extra £40 billion a year as a result of gains from growth, falling unemployment and low debt interest.

And in this budget and later in the Spending Review I will allocate these resources. When the allocation of additional resources was made 10 years ago, 75 per cent had to go to pay debt interest and the rising costs of unemployment, only 25 per cent to priority services. But debt interest payments are now and will remain around 2 per cent of national income - less than at any time since 1915 - and unemployment costs are falling.

So let me summarise. I have shown how the British model for monetary and fiscal policy is locking in stability for the future with lower debt and lower deficits than our competitors. I have shown the dividend from stability and growth that allows rising investment to meet our priorities of delivering stability, security and economic strength. And I have now shown how the investments we make are not only affordable but fully financed and linked to reform. I will set the total amount for departmental spending and allocations at the time of the Spending Review when I will also publish forecasts for Annually Managed Expenditure including debt interest and social security costs. The growth rate of both overall spending and departmental spending will be lower in this Spending Review than in the last, but with administrative costs cut and with wider efficiency improvements, we will be able to deliver further substantial increases in resources direct to the front line, to patients, pupils, and users.

And as I consider these allocations, I have had a number of representations about the path and priorities for public spending in the years ahead. Full announcements will be made in the Spending Review in July but I can confirm the following decisions. It has been put to me that we freeze the defence budget and cut it in real terms. At a time when our armed forces are now serving in Iraq, Afghanistan and Kosovo as well as in Northern Ireland and elsewhere, this course would be irresponsible, contrary to the national interest and I reject it. In the last Spending Review we allocated the largest spending increase in 20 years to defence and I can tell the House that I propose real terms increases in defence spending.

There have also been representations to freeze the Home Office budget and to cut it in real terms. I have agreed with the Home Secretary that having increased the numbers of the police this would be exactly the wrong time and contrary to the national interest to freeze expenditure on the Home Office.

I have also received representations that we should freeze the transport budget, cutting it in real terms. I have consulted with the CBI and business organisations and they feel it is critical to the economy to press ahead with investments in our infrastructure and that we should not return to the old “stop-go” in spending which left hundreds of road projects planned but never completed. So the Spending Review will provide for real terms growth in transport funding not for cuts.

I have also rejected representations to freeze spending on housing, local government, and services to the elderly and children. I have received proposals to cut the science budget, the skills budget and to abolish the New Deal. But instead of cutting these budgets I believe it essential that as skills, knowledge and technology become more central to our future prosperity, now is exactly the right time to raise investment in British science and British education.

And this is our budget choice. Mr Deputy Speaker, we cannot be a strong economy if we are weak in education and science. So first on science and innovation, we will work with the scientific community and our science-based companies so that in this spending period we can raise the level of science funding as a share of national income, with one purpose: to make Britain the best and the most attractive location for science and innovation in the world.

Today the Government is also announcing a ten year framework for medical science. Our health budget is not just what we spend on the National Health Service but on medical research that is bringing new treatments and cures. Modelled on the successful National Cancer Research Institute, our ten year plan will fund specialist research institutes for other diseases; a new National Clinical Research Network that brings private and public sectors and medical charities together; and I can confirm today that the combined budget for medical research and research and development within the NHS will rise and by 2008 approach £1.2 billion a year.

Mr Deputy Speaker. From 1997 the New Deal has helped 1 million men and women move from unemployment to employment. But as we upskill our economy, the next challenge, the challenge for every advanced industrial nation, is to equip people to move from low skilled work to higher skilled work. So we will now constitute, alongside the New Deal for jobs, the New Deal for skills - offering, in job centres, for the employed as well as unemployed, a one-stop skills service with access to personal skills advisers and training.

In line with our policy of rights matched by responsibilities, not only will jobseekers be required to undergo a skills check but new incentives will be piloted to encourage lone parents, incapacity benefit claimants and partners of the unemployed also to gain new skills. The New Deal for Skills will mean a guarantee of opportunity for every adult to gain Level 2 skills. And building on the successful first phase of Employer Training Pilots, I can announce their extension to the North East, Lancashire, the Black Country, Devon and Cornwall, Cambridgeshire and West Yorkshire.

The new guarantee to adults will be matched by a guarantee to the young: and with new junior apprenticeships and pre-apprenticeship courses, allied to improvements I am announcing today in benefit rules, every teenager will have the offer of training or education until age 18.

Mr Deputy Speaker, having, in the last spending round, tackled under-investment in schools and in teaching staff, the primary focus of this spending round must be on excellence and improving standards for all by supporting strong leadership in schools and by diversity of provision throughout education with the aim that we use modern technology and teaching to offer our pupils individual tuition and learning tailored to their needs and move Britain to the top of the world league for results and standards in education.

So matching our new investment to reform the Secretary of State for Education is announcing the next stage of his modernisation of primary and secondary education. Building on previous reforms to raise standards: the literacy and numeracy hours; excellence in Cities; the New Deal for Schools; reform of the teaching profession; he is designating up to a thousand more specialist schools alongside more City Academies; offering greater autonomy and flexibility for schools that are succeeding; providing more discretion for head teachers over school budgets; training more teachers and teaching assistants for coaching and learning matched to individual pupil needs with wider options for their curriculum; encouraging new partnerships between schools and within communities; extending school hours with additional classes and services, and thus empowering schools to raise standards for all pupils. And I can announce that to advance these modernisation plans, the overall capital investment budget for English education - which was £1 billion a year in 1997 - will be £6 billion next year rising to £8.1 billion a year by 2008. Similar announcements will be made for Scotland, Wales and Northern Ireland.

Our capital investment allocations will ensure for every constituency in the country that by 2015 every secondary school can be refurbished or rebuilt with world class technology in every school and the best state of the art learning support in every classroom. And in line with our commitment to get resources to the front line, the settlement for education I am announcing today will ensure more money goes direct to the school and the headteacher to spend on the schools priorities. And for the year 2005-6 I can announce that there will be a payment in the typical primary school direct to the headteacher of over £55,000 pounds, and in the typical secondary school payments direct to the headteacher of £180,000 pounds.

It has been put to us by some that our guarantee of increased educational investment should be limited only to schooling and that in the years to 2008 we should freeze cash spending and cut it in real terms for universities, further education colleges, apprenticeships, adult skills and lifelong learning, as well as nursery education, day care, and child care for the under fives. But this cannot be the right decision when we know that chances in life are determined as much before age of five as after; and when we also know that 8 million adults do not yet have basic skills for a modern economy.

Sure Start is tackling child poverty. Early years education and childcare is vital to parents and child development. So the Secretary for Education is announcing today that funds for Sure Start, early education and childcare will not be cut but will rise from 2004-5 to 2007-8 by £669 million -- an average annual real terms rise of 17 per cent.

The Secretary for Education is today also announcing that there will be, by 2008, a total of 1700 Children's Centres - one in each of the country's 20 per cent most disadvantaged wards - as we advance towards our goal of a Children's Centre for every community. And he is also announcing that our university and student finance reforms will be matched by rising real terms funding to progress towards the 50 per cent target for students in higher education that give thousands more students with qualifications the opportunities they deserve. The settlement will maintain the levels of real terms student funding per head and ensure universities receive in full the benefit of additional revenue from the government's higher education reforms.

And to fund our further school reforms and a rising number of teachers and teaching assistants, I can announce, for England, the educational settlement in full for the 3 years to 2008: that compared to growth of 1.4 per cent a year in the 18 years to 1997, there will be a real terms rise averaging, after inflation, 4.4 per cent a year. In 1997 England spent just £2,500 per pupil, today it is £4,500. By 2007-8 it will be £5,500 per pupil - more than twice the 1997 figure, and £1,000 more per pupil between now and 2007-8. So the education budget for England which was £29 billion in 1996-7 will rise from £49 billion this year and £52 billion next year, to £60 billion in 2006-7 and £64 billion by 2007-8.

And the education budget for the UK which was £37 billion in 1996-7 will rise from £59 billion this year and £63 billion next year, to £72 billion in 2006-7 and £77 billion by 2007-8. So with our new announcements today, for UK education an additional £8.5 billion in 2007-8 compared to 2005-6, £8.5 billion extra that is not only affordable but fully funded and linked to standards and reform; the gains from stability and economic success; the dividend from the strength to take hard decisions about priorities every year since 1997; and at all times meeting our fiscal rules. UK education spending which was just 4.7 per cent of GDP in 1997 will rise to 5.6 per cent in 2007-8 - from one of the lowest in the industrialised world to amongst the best.

And I have one final announcement. This summer the review of local government finance will report. But I understand the difficulties today faced by older pensioners on fixed incomes especially the over 70s. The evidence shows that their council tax bills take a higher share of their income than the rest of the population. So for this year for those over 70, on top of the winter fuel payment, we will pay an additional £100 to each household. Together with the winter fuel payment, pensioners aged over 70 will this year receive a total of £300. And pensioners aged over 80 will receive a total of £400. I hope Members on all sides of the House will welcome this extra support for our older pensioners.

Mr Deputy Speaker: Our foundation: economic stability. Our achievement: sustained growth. Our choice: more investment not less. Now and into the next parliament. Our prudence is for a purpose and I commend this budget to the house.