

# **2008 Budget Statement**

**BUDGET STATEMENT TO THE HOUSE OF COMMONS  
DELIVERED BY THE RT HON ALISTAIR DARLING MP,  
CHANCELLOR OF THE EXCHEQUER  
12 MARCH 2008**

## Check against delivery

Mr Deputy Speaker, the core purpose of this Budget is stability - now and in the future.

And its core values are fairness and opportunity, founded on stability and strength.

Mr Deputy Speaker, in every country in 2008, every government has one aim - to maintain stability through the world economic slowdown.

Britain with its central role in the world's financial system is no exception.

With low inflation. Record levels of employment. And unemployment at its lowest level for a generation.

And with the action taken last year to curb inflation, Britain is better placed than other economies to withstand the slowdown in the global economy.

Mr Deputy Speaker, this year's Budget is a responsible Budget that will secure stability in these times of global economic uncertainty.

And we will do everything in our power to maintain stability – keeping inflation and interest rates low and maintaining our record of growth.

While other countries have suffered recessions, the British economy has now been growing continuously for over a decade – the longest period of sustained growth in our history.

Because of the changes made by this Government to entrench stability and increase the flexibility and resilience of our economy, I am able to report that the British economy will continue to grow through this year and beyond.

Even in today's difficult and uncertain times, we are determined that we will not be diverted from our long-term aim – to equip our country for the challenges of the future, confront climate change and to end child poverty in this generation.

Mr Deputy Speaker, this Budget is about equipping Britain for the times ahead. Making sure that everyone – no matter what their circumstances - can exploit their potential.

It's about building a fairer society, offering more opportunity, a fair Britain in which everyone can succeed.

Mr Deputy Speaker, throughout the world economies have benefited from the globalisation of trade and investment, which has delivered strong world growth.

Here in Britain, our openness, our global reach, our history of scientific invention and creative success, make us uniquely placed to succeed in the global economy.

But with the benefits of globalisation we see too how problems in one part of the world can quickly spread to another.

Turbulence in global financial markets – which started in the American mortgage market – has affected all economies from the United States to Asia, as well as Europe.

We have seen significant disruption across many credit markets: with a number of them barely functioning at all.

And since the turn of the year, global stock markets have also been affected. This poses a major risk to the world economy.

And so we welcome yesterday's commitment by the world's central banks including, the Bank of England to address these concerns.

Here, the action we took last autumn to support Northern Rock and protect depositors and savers mean that – despite seeing the worst period of financial disruption for a generation – we have maintained confidence and stability in the banking system.

Mr Deputy Speaker, between the early 1970s and the mid 1990s the UK was one of the least stable economies in the G7. Today we are the most stable.

In the past our economy suffered from high unemployment and high inflation but today unemployment is lower than in Germany, France and Italy.

Welfare reform makes work pay and encourages people off benefits. The strengthened competition regime has increased the flexibility of product and labour markets, backed by fair employment laws.

So, the reforms we have made since 1997 – independence for the Bank of England and tough fiscal rules – mean that Britain is now more resilient and better prepared to deal with future shocks. And is better equipped to meet the challenges of rapid global change.

We are developing new strengths in the industries of the future – creative industries account for 7 per cent of the economy; pharmaceuticals account for a quarter of the UK's research and development.

Ours is the only major industrial economy to see an increasing share of trade in global services – from 7 per cent a decade ago to 8 ¼ per cent today.

In knowledge-intensive services, the UK is second only to the United States. High-tech manufacturing has grown by 30 per cent in the last ten years.

Driven by improved productivity, the UK's GDP per head - the average income for every man, woman and child - has gone from the lowest amongst the group of seven leading industrial economies in the early 1990s to being second only to the United States last year.

Mr Deputy Speaker, right across the world, countries have lowered their forecasts for growth in the coming year.

In Japan, growth is forecast to be 1.4 per cent, in the Euro area and the United States 1.6 per cent, and in Canada, 1.8 per cent.

And even the fastest growing markets: China, India and Brazil, which have enjoyed record growth in recent years, are expected to slow.

Despite the slowdown in the world economy, in 2007 the British economy grew by 3 per cent – the fastest growth of any major economy.

This year my forecast is that – as growth in the world economy slows further – growth in the British economy will be between 1¾ and 2¼ per cent in 2008 – but faster than Japan, the US and the Euro area.

I expect growth to shift towards companies and exports with growth rising to 2¼ to 2¾ in 2009 and 2½ to 3 per cent by 2010.

So Mr Deputy Speaker, my forecast shows the UK economy will continue to grow throughout this period of global uncertainty – a view supported by the Bank of England, the International Monetary Fund and the Organisation for Economic Co-operation and Development.

Mr Deputy Speaker, in the past, inflation has overshadowed many Budgets. From the 1970s until the early 1990s, the British economy suffered through the failure of successive governments to deliver economic stability.

Mr Deputy Speaker, we have seen recent increases in world food, fuel and energy prices.

The reforms we have made since 1997 mean we can be confident about the inflation outlook. There will be no return to the inflation rates of the early 1990s.

As is happening in many countries because of commodity prices, inflation in the UK will rise in the short term as higher oil and food prices feed through into domestic inflation.

But inflation is forecast to return to target in 2009 and remain on target thereafter.

The success of the Monetary Policy Committee and the resilience of the UK economy is clear. Energy prices have tripled since 2002, but over this period inflation has averaged just 2 per cent and growth has averaged 2¾ percent.

To provide certainty, and to build on this foundation of stability, I am today writing to the Governor of the Bank of England to re-confirm that the inflation target for the Monetary Policy Committee remains 2 per cent on a CPI basis - entrenching our commitment to low inflation.

And the discipline we have shown on pay in the public sector will support the Bank of England in maintaining low and stable inflation.

The reforms we made, this hard-won stability, means that – whereas in previous decades the UK economy suffered more than other economies in the face of global

economic downturns – we enter this period of uncertainty, better placed than any other major economy.

Mr Deputy Speaker, our fiscal policy, like our monetary policy is designed to support stability.

It is founded on tough fiscal rules, underpinned by the Code for Fiscal Stability and forecast on the basis of cautious assumptions audited by the independent National Audit Office.

Our fiscal rules – to keep debt low and stable and to borrow only for investment over the economic cycle - deliver sound public finances in the medium term.

They protect public investment and allow fiscal policy to support monetary policy at the right time to sustain economic stability and growth.

Over the past ten years at all times we have taken the action necessary to meet our fiscal rules.

The disciplines we have imposed mean that borrowing is much lower than it was before 1997 – and so too is debt.

And between 1979 and 1997 borrowing was 3.4 per cent of national income.

Since 1997 it has averaged just 1.2 per cent.

And debt which – at the start of the economic cycle in 1997 – was 43.3 per cent has now fallen to 36.6 per cent of GDP.

It is precisely our commitment to this discipline and stability that gives us the flexibility now to respond to the global economic challenges we face today.

Given the fundamental strength of our public finances, it is right to allow fiscal policy to support monetary policy over the period ahead in helping to maintain stability in the face of the global downturn.

For environmental reasons we will increase fuel duty by ½ pence per litre in real terms from 2010.

Fuel duty is due to rise again in April but because I want to support the economy now and help business and families I will postpone that increase until October.

Mr Deputy Speaker, I can tell the House with our Budget projection for the current budget balance in 2007/08 will come in at £8 billion as forecast.

And our projection for net borrowing at £36 billion is £1.4 billion lower than forecast at the time of the Pre-Budget Report.

Debt too this year is forecast to be lower than the Pre-Budget Report at 37.1 per cent.

As a result of decisions in this and recent Budgets that come into effect this year - including a reduction in the main rate of income tax from 22 to 20 pence - fiscal policy is able to provide real support to the economy this year.

This is a responsible approach - within the disciplines of our fiscal rules - that will help entrench the resilience of the UK's economy.

So borrowing next year, which peaked at 7.8 per cent of national income by 1993, equivalent to £110 billion today, next year will rise to £43 billion, some 2.9 per cent of national income, less at its peak than the average level of borrowing between 1979 and 1997.

Because of the decisions taken in this Budget it will fall to 2.5 per cent, then 2 per cent, then 1.6 per cent and then 1.3 per cent by 2012/13, supporting stability and resilience in the economy. That is £38 billion and then £32 billion, £27 billion and £23 billion by 2012/13.

Even taking into account the turbulence in financial markets and the support we are providing to the economy now, the current balance this year is in line with my forecast at Pre-Budget Report minus £8 billion.

Next year it will be minus £10 billion, then minus £4 billion, returning to a surplus in 2010 of £4 billion, then £11 billion and then £18 billion by 2012/3, forecast to meet the Golden Rule over the economic cycle.

And so Mr Deputy Speaker, the Budget shows that we are meeting our first fiscal rule – the Golden Rule – with the current budget in surplus over the economic cycle.

In the previous 2 cycles the then Governments failed to meet the Golden Rule; in the cycle from 1986 to 1997 they failed by a margin of £240 billion and in the cycle from 1977 to 1986 by £140 billion.

In the past, the then Government borrowed to fund the immediate pressures of the day with no long-term return to the taxpayer.

Today our fiscal discipline means that over the cycle we will borrow only to invest.

Vital investment – in transport, schools and hospitals – has been protected and increased.

So whereas in 1996-7 public sector net investment was £5.4 billion, over the forecast period it is set to rise further from £33bn next year to £37bn in 2010 – the highest in three decades.

Borrowing for investment within the fiscal rules, means that we will meet our second fiscal rule – the Sustainable Investment Rule. In each year and over the cycle.

This year debt will be lower than the US, Euro area and Japan.

Debt levels are forecast to be 38.5, 39.4, 39.8, 39.7 and 39.3 per cent of GDP by

2012 /13. Every year lower than in 1997.

Mr Deputy Speaker, in the 18 years between 1979 and 1997 investment increased by only 20 per cent in cash terms and reached a low of just 0.3 per cent as a share of national income.

But by 2011, I can tell the House that investment will have increased by 500 per cent since 1997 and will have trebled as a share of national income.

Mr Deputy Speaker, by 2011 we will have seen the longest sustained expansion of investment in public services since 1945.

It is an achievement to be rightly proud of.

And we remain committed to continued investment in these public services.

And building on the platform of stability provided by the new fiscal rules, successive Spending Reviews delivered sustained increases in spending addressing the backlog of underinvestment in public services.

Mr Deputy Speaker, public spending grew by 3.6 per cent a year in real terms between 1997 and 2007.

Following the Comprehensive Spending Review last October, public spending in the coming three years will grow by 2.2 per cent, building on past increases and underpinned by our stretching value for money reforms.

In 10 years, spending on health has almost doubled; spending on education is up by 58 per cent.

As a result waiting lists are down; school standards are up. Transport spending is now 90 per cent higher. More people are using public transport than ever before.

Aid for the world's poorest countries has doubled in real terms.

The Defence Budget has seen the longest period of increased spending in a generation.

This year we again expect to spend over £2 billion more supporting our troops on the front line. Including around £900 million on military equipment.

Mr Deputy Speaker, I want to take this opportunity to pay tribute to our service men and women in Iraq and Afghanistan, and their families.

We are deeply proud of the bravery, professionalism, and courage they display in serving our country.

Mr Deputy Speaker, this has been an exceptional commitment to improving public services. By 2010-11 we will have seen the longest sustained expansion of investment in public services in recent history.

In 1997 the annual cost of servicing our national debt was 9 per cent of public spending.

But today it is 5 per cent of total public spending. Freeing up an extra £23 billion each year to invest in public services – around half the entire budget for schools.

In the early 1990s as much as three quarters of all new public spending went on debt and social security costs. The figure is now just a third of that – allowing us to target spending where it is needed.

We have turned welfare into work and borrowing into wealth creation.

And it is essential that we continue to help everyone who can work to do so.

So Mr Deputy Speaker, we will bring forward further proposals to reform housing benefit to ensure that work pays.

From April 2010 all long-term recipients of incapacity benefit will attend work capability assessments.

These reforms will continue to free up resources for investment.

And it is right that like any other organisation, the public sector is as efficient as possible and that it delivers value for money.

Over the last year public sector employment has fallen. At the same time, private sector employment has grown strongly leading to record levels of employment, underlining the resilience of the British economy.

All departments have now published plans which will deliver another £30 billion in savings each year from 2010/11.

All of these savings will be reinvested in services.

And we will examine all major spending areas to identify where further reform could be made to deliver better value for money and maintain the improvement of public services.

Mr Deputy Speaker the Prime Minister has made clear, spending must be matched by reform. Reform remains vital. It's not optional – it's essential. It's common sense.

Since 1997 we have responded to peoples' expectations for better public services after decades of underinvestment and neglect.

We have driven up standards, developed a greater diversity of providers, tackled failing services, thereby ensuring that maximum benefit was gained from investment.

10 years ago there were 600 schools in which less than a quarter of pupils gained at least five good GCSEs. Today there are fewer than 50.

Compared to 1997, 10 per cent fewer people die from cancer each year thanks to faster and better treatment and more specialist doctors.

But the test for public services in the future is not whether they are better than before or simply good enough. It is whether they are as good as they can be.

So, if the focus of the past decade was on repairing the old; the focus of the next will be on developing genuinely world-class services.

After a decade of hugely increased investment, we will continue our spending at a sustainable rate alongside our wider objectives for the economy and public services.

This Budget therefore confirms the spending plans set out in last year's Comprehensive Spending Review, and makes an assumption for continuing real growth in public spending after 2011 at a rate of 1.9 per cent a year.

That will allow departmental resources to continue to grow at broadly the same rate as in the next three years.

Now, Mr Deputy Speaker, I want to turn to the steps that we need to equip Britain for the future.

There is no greater moral imperative than to make sure that every child has the highest aspiration and ambition.

And the best possible opportunity to go as far as they have to the talent to go. Not some children, but every child.

If we are to build a fairer future for our children then we must eradicate child poverty in Britain.

Between 1979 and 1997 the number of children living in poverty has doubled.

Since then Mr Deputy Speaker, I can report that there are 600,000 fewer children in relative poverty, and we have halved the number of children in absolute poverty.

We have set ourselves an ambitious target to eradicate child poverty by 2020 and to halve it by 2010. And today I want to do more to deliver that ambition.

I will help their families to escape permanently the cycle of deprivation that blights too many lives.

Central to this is helping more parents into work.

We want to demonstrate our commitment to supporting parents, through a contract in which Government undertakes to provide the support that families need to move into work and the other side of this contract we look to families to make a commitment to improve their situations where they can.

From October 2009, we will change the rules for Housing and Council tax benefit so that parents are better off in work than on benefits.

As a result, a working family with one child on the lowest income will gain up to £17 a week. Mr Deputy Speaker this measure will lift 150,000 more children out of poverty.

And I can do more to help all children and hard working families.

In 1997 Child Benefit for the first child was £11 a week. I can tell the House that from April 2009, I will increase Child benefit for the first child to £20 a week - a year earlier than planned.

I will increase by £50 a year above inflation the child element of the Child Tax Credit for families on low and middle income from April next year.

This means that a family with two children, earning up to £28,000 a year, will be over £130 a year better off.

To make further progress we will spend a further £125m over the next three years targeting help to those who need it most and where the challenges are the hardest, developing new approaches that help families for the long-term.

Taken together these measures mean that, even at a time when we need to take difficult decisions, are investing a further £765 million next year and then a further £950 million the following year to take 250,000 more children out of poverty.

Today I am publishing analysis on what further steps we intend to take to eradicate child poverty.

And I believe further action is now needed to help vulnerable groups deal with rising energy prices.

We want to see the 5 million customers on prepayment meters given a fairer deal and energy companies to increase their support to vulnerable customers.

We will work with the companies to take further action on a voluntary and statutory basis - to underpin this as necessary we will legislate.

Energy companies currently spend around £50 million a year on social tariffs. I want to see this rising to at least £150 million a year over the period ahead.

Mr Deputy Speaker, the Government is committed to encouraging more people to save.

There are now over 17 million people with individual savings accounts and, from this April, we are increasing the annual Individual Savings Accounts investment limit to £7,200 with the amount that can be held in cash rising to £3,600.

And parents have now opened over 2.4 million Child Trust Fund accounts saving more for their children's future.

We must go further.

So I can also announce that the Government will launch the Saving Gateway nationally with the first accounts available to savers from 2010. By contributing to these accounts we will offer incentives to save to up to 8 million people on lower incomes.

Ending child poverty, encouraging saving, raising ambition and providing greater opportunity.

Mr Deputy Speaker, for business, my Budget provides continuing stability and certainty and introduces new opportunities for entrepreneurs – the three critical factors contributing to the strength of the UK's business environment.

Ensuring that the UK remains one of the best places in the world to do business, we will continue to promote open and competitive markets – including by removing barriers to trade across the world through bilateral and multilateral trade negotiations including the conclusion of the Doha development agenda.

Mr Deputy Speaker, our goal is, and will continue to be, to maintain the most competitive corporation tax rate of any major economy. We have the lowest corporation tax rate in the G7.

A competitive and simplified tax regime is essential.

That is why we cut the main rate of corporation tax in 1997 and again in 1999.

And from next month the main corporation tax rate falls again from 30 per cent to 28 per cent.

Mr Deputy Speaker, the UK is one of the best places in the world to do business. We are committed to consultation with business to maintain a stable business tax system that remains responsive to business' needs and internationally competitive.

Underlining our commitment to maximising the economic recovery of the UK's oil and gas reserves, I can also confirm reforms to the North Sea fiscal regime to help incentivise investment and support production.

But today I also want to do more to support Small and Medium Enterprises now and in the longer term.

13 million people work in Small and Medium Enterprises. And there are over 750,000 more firms than in 1997.

The new Capital Gains Tax rate will come in next month including the entrepreneurs' relief I announced in January.

And that will benefit over 80,000 businesses and investors in the next year alone – 90 per cent will continue to pay Capital Gains Tax at 10 per cent – one of the lowest rates in the world.

This Budget continues a programme of tax simplification. I am today announcing further steps to help small companies simplify their tax calculations.

Mr Deputy Speaker, especially at this time we need to do more to help Small and Medium Enterprises get access to the finance they need.

To help them in current conditions, I can therefore announce that funds available through the Small Firms Loan Guarantee scheme will be increased by £60 million for the coming year.

And I am from next month extending the scheme to small and medium firms.

I am also increasing the amount of investment on which tax relief is available under the Enterprise Investment Scheme from £400,000 to £500,000, and the employee share limit for tax relief under the Enterprise Management Incentive Scheme will increase from £100,000 to £120,000.

The Secretary of State for Business and Enterprise will consult on radical new proposals to impose a limit on the amount of regulation that can be imposed by Whitehall departments.

I will also provide a capital fund of initially £12.5 million to specifically encourage more women entrepreneurs.

There is more I can do to ensure that small and medium firms win more business from the public sector.

So we will take immediate steps to give firms better access to Government contracts, and to help them with their cashflow.

And I am asking Anne Glover, Chief Executive of Amadeus Capital Partners, to look into what other barriers we can remove and the practicality of setting a goal for Small and Medium Enterprises to win 30 per cent of all public sector business in the next five years.

I believe that this could help promote enterprise in one of our most innovative and dynamic areas of the economy.

I believe we can help support them grow their businesses, creating new jobs and opportunities.

Mr Deputy Speaker, we welcome the contribution made by people born outside the UK who choose to come and work here. They are an important and central contributor to our economy's growth and prosperity.

They pay taxes on their earnings here and also pay tax on money they bring into the country from abroad.

But for those non-domiciled individuals or families who have chosen to make Britain their home, I believe that it is right and fair that they should, after 7 years, pay a reasonable charge to maintain the right to be taxed differently from other UK residents.

Beyond that, as I have said before, we will not seek to charge UK tax on offshore income or capital gains that is not brought into the UK.

This new charge will be implemented from April. There will be no further changes to this regime for the rest of this Parliament or the next.

Last October I said that I would consider a scheme to which claimed to raise an additional £2.8 billion. On closer examination it was clear that the sums that did not add up. Not for the first time given the source. And I have rejected it.

We will continue to be vigilant against tax avoidance and we are publishing today further measures to ensure fairness for all taxpayers.

If we are to compete in the future it is essential to do even more to drive up standards in education and to improve skills. Increased spending on education has benefited children across the UK.

We have cut the number of underperforming schools dramatically in the last decade.

And building on last year's Spending Review, we will raise standards even further. To create greater opportunity for all children.

And so the Secretary of State for Children, Schools and Families will be investing £200m to bring forward by a year to 2011 the Government's aim for no schools to have fewer than 30 per cent of its pupils achieving 5 A\*-C GCSEs, including English and Maths.

We will extend the successful London Challenge model, enable the best head teachers to turn round low performing schools, create new trusts and federations around successful schools, and in areas of greatest need drive forward a faster expansion of our Academies programme.

And as a result, by 2011, we will ensure that every school is an improving school meeting the standards we have set.

And I can announce today that we will commit £10 million over the next five years - which alongside contributions from the Wellcome Trust and private sector will create a £30 million Enthuse Science fund.

This will give every science teacher in secondary and further education access to high quality professional development helping improve the science offer to today's children.

And to improve skills, the Comprehensive Spending Review increased resources for adult training. Extra funding will enable nearly 3 million adults to gain new, higher-level skills by 2011.

And today I can announce an extra £60 million over the next three years to provide new opportunities for people to gain the skills needed to enter the labour market, to remain in work, and progress in work.

This includes additional apprenticeships with leading employers to help tackle skills gaps and shortages.

Mr Deputy Speaker, by 2010 we will be spending over £6 billion a year supporting British science and innovation.

And tomorrow also the Secretary of State for Innovation, Universities and Skills will publish the Science and Innovation White paper.

Including proposals for a Further Education Innovation Fund to help them support businesses to develop their innovative potential.

If we are to compete in the future, not only do we need to have the best business environment and higher skills levels, we also need good transport links to make up for decades of underinvestment.

In the last ten years we have doubled the amount we spend on transport. £7 billion on the West Coast Mainline to Glasgow cut journey times. Public transport usage is at a 25 year high.

Mr Deputy Speaker, last November, following the Government's investment of £6 billion, saw the completion of the Channel Tunnel rail link, with the opening of the St Pancras international station.

This week the new Terminal 5 opens at Heathrow.

Today I can announce new measures at Heathrow and other airports to ensure that a greater use of biometric technology speeds up the time it takes passengers to get through immigration control.

Good for business. Good for Britain.

Government funding for Crossrail is now secure; this will support economic growth not just in London but in the whole of the United Kingdom by adding an estimated £20 billion to national income.

This will help ensure that London retains its position as the world's pre-eminent international financial centre.

We are spending more on public transport. But we also need to reduce congestion and improve transport links.

If we are to remain competitive over the next 20 to 30 years, we have to take more radical steps to reduce congestion on our roads.

We need more capacity on our roads but we cannot build our way out of all the problems we face.

Last week the Secretary of State for Transport announced further measures to ease congestion. In addition she has made available funding to develop local schemes to tackle congestion in the short-term.

In the longer-term, road pricing could reduce congestion as well as helping to meet our wider environmental obligations.

So I am setting aside new funding to develop the technology that could underpin national road pricing, inviting tenders to test this with the results expected next year.

Just as we need good transport links, we also need to make sure that we have more housing to meet the rising demand for new homes as well as to support our growing economy.

Since 1997, as a result of historically low mortgage rates we have seen one and a half million more home owners.

Already we have helped 95,000 families into new homes through shared ownership and shared equity schemes. And we will spend £8 billion on new, affordable and social housing over the next three years.

This will enable the Housing Corporation to deliver 70,000 new affordable homes each year by 2010/11.

But I want to go further.

From this April, key workers – such as teachers and nurses – and first time buyers will be able to borrow money from new-shared equity schemes.

Until now these were only available to those who could afford three quarters of the price of their new home. I am now extending the scheme to help those able to afford half of the price of their new home.

And I can also announce that from today, stamp duty on shared ownership homes will not be required until buyers own 80 per cent of the equity in their home.

Mr Deputy Speaker, it is precisely at this time that we need to do more to promote longer-term stability for home owners and mortgage holders.

Already the reforms we have introduced have created much greater stability with consistently low mortgage rates for home owners.

However, the uncertainty in the financial markets is having an impact on mortgage lenders here in the UK.

So I want to take measures that will keep mortgage rates low and stable.

In 2006, 30 per cent of mortgages agreed in the UK - £100 billion of lending – were funded through secondary funding markets.

Current conditions in these mortgage funding markets are extremely difficult because of financial turbulence in global markets.

In some countries these markets are closed.

It is, however, imperative that lenders have access to stable and low cost funding so that mortgage rates can come down as soon as possible.

We will bring together, investors and lenders with the Treasury, the Bank and the Financial Services Authority to find market-led solutions to strengthen these funding markets further.

Mr Deputy Speaker, I also want more people to have the choice of long term fixed rate mortgages. These protect borrowers from risks and still allow them flexibility to move, or get a new mortgage if rates go down.

Today, however, most people in the UK have short-term fixed rate mortgages for two or three years, leaving them exposed to interest rate rises when their mortgage deal ends.

This is not the case in other countries, such as Denmark where the majority of homeowners take out long-term fixed rate mortgages.

I want to see more flexible and affordable long-term fixed rate mortgages for 10, 20 or even 25 years.

And I am today publishing the findings of the review of housing finance in the UK.

The conclusions show that long term fixed rate mortgages can reduce some of the risks of taking out a mortgage, especially for first time buyers and lower income families.

And it will help more people get on - and stay on - the housing ladder.

So, I will seek views on how we can deliver - drawing on international experience – the right framework for the UK to achieve affordable, long term fixed rate mortgages. I will report back at the Pre-Budget Report.

Mr Deputy Speaker, the best way to improve long term affordability and stability is to build more homes. That is why we are committed to 3 million more homes by 2020.

So I can announce that in addition to the 40,000 already under construction, we have through the review of public sector land identified sites for 70,000 more homes.

Mr Deputy Speaker, we are determined to take decisions now for the long-term future of our country.

Helping to improve affordability, supporting long-term stability for homeowners, and meeting the needs of future generations.

And our greatest obligation to future generations must be to tackle climate change.

Britain has been at the forefront of international action. We are one of the few countries meeting our Kyoto target.

We are working with other countries following agreement in Bali last year to agree tougher global goals after 2012.

And the UK will use our £800 million environment fund to work with the United States, Japan and other countries as well as the World Bank to fund clean technologies in developing countries, and adaptation to climate change.

Britain is already the leading financial centre for carbon markets and we are also working with California and other American states to build these markets and strengthen international partnerships.

We need to do more and we need to do it now. Few doubt the science. The need to take action is urgent.

There will be catastrophic economic and social consequences if we fail to act.

Recognising this threat, we are the first Government anywhere in the world to introduce legal targets compelling us to take action to cut carbon emissions.

We have an established target to reduce carbon emissions by at least 60 per cent by 2050.

I believe that we should go further.

That is why we have asked the Climate Change Committee to advise us – whether as part of an international agreement – we should raise our target to 80 per cent.

And if we are serious about reaching demanding targets then every department in Government, every public sector body, every business, every one of us needs to play its part.

And to ensure carbon reduction is a central part of our economic objectives, I can tell the House that the first carbon budgets to 2022 will be announced alongside the Budget next year.

Long-term growth must be sustainable.

There are huge opportunities here too for business, and there could be over a million jobs in our environmental industries within the next two decades.

Meeting these long term challenges will require us to make substantial reductions in emissions across the economy – in energy supply, transport, in our business and in our homes.

But I believe that there are three key steps we can take now.

Firstly, working in Europe we have helped build the Emissions Trading Scheme to curb the amount of carbon produced by generators and large industrial users.

The scheme imposes a cap on the amount of carbon companies can generate. Companies get allocations for credits to help them adapt.

If we want to encourage investment in low carbon technology in energy renewables and in nuclear, for example, and to make industry more carbon efficient we need to go further.

So in the next phase, instead of auctioning 7 per cent, I want to see auctioning of 100 per cent of these allowances for energy generators.

Last year's Energy White paper committed us to increasing the supply of renewable energy and the Energy Bill will allow the tripling of renewable electricity by 2015.

We will consult on how to meet our share of the European Union target in the summer.

Secondly, we need to do more to reduce the amount of carbon generated at home and at work.

Given the damage that single-use carrier bags inflict on the environment, we want to be able to take action. We will introduce legislation to impose a charge on them if we have not seen sufficient progress on a voluntary basis.

Legislation would come into force in 2009 and based on other countries' experience, it could lead to a 90 percent reduction, with around 12 billion fewer plastic bags in circulation.

The money raised should go to environmental charities.

And next month we will launch the most ambitious household emissions reduction programme.

Energy companies are obliged through the Carbon Emissions Reduction Target to give their customers better deals for energy efficiency and therefore cut bills.

Cavity wall insulation for nearly three million homes. Loft insulation, more energy efficient appliances and light bulbs.

I can announce £26 million funding next year for a Green Homes Service to help people cut their carbon emissions and their fuel bills.

We will roll out smart meters to medium and large companies over the next five years, providing greater incentives to reduce the amount of energy they consume.

We already have a target to make new homes zero carbon from 2016. I believe that we can go further.

And I can announce today that new non-domestic buildings will become zero-carbon from 2019.

We will consult on achieving that targets with the potential to save 75 million tonnes of carbon dioxide over the next thirty years.

The Climate Change levy, which is the main reason why we have met our Kyoto targets and which is still opposed by some, will increase in line with inflation from April.

The third key area we need to take action now is in relation to transport.

It accounts for nearly a third of our carbon emissions.

We recognise the contribution of aviation to the UK economy. That is why we support the expansion of Stansted and Heathrow.

I have always been clear that aviation must meet its environmental costs, and that is why we want aviation in the European Union Emissions Trading Scheme.

Because emissions from aircraft are forecast to continue to grow, I am also announcing that revenue from plane duty will be increased by 10 per cent in the second year of operation.

But Britain's 30 million cars, vans and lorries together account for 22 per cent of total carbon emissions.

Over the last 20 years new cars have become 50 per cent more efficient. And new technology will bring further improvement.

Today, I am publishing Professor Julia King's review of low carbon cars in which she examined new technologies which could help cut carbon emission.

Professor King found that by simply switching to the cleanest cars on offer, motorists could save 25 per cent of their fuel costs.

She also found that manufacturers needed to be encouraged to bring new technology to the market.

And I am asking the European Commission today to set a tighter target which reduces the cap on emissions from cars from 130 grams per kilometre of carbon dioxide to 100 grams per kilometre of carbon dioxide by 2020.

The road tax system should do more to support the use of more carbon-efficient, and therefore less costly cars.

This will help reduce average carbon dioxide levels in new cars.

Firstly, from April 2009, I am proposing a major reform to Vehicle Excise Duty to encourage manufacturers to produce cleaner cars and by introducing new bands, there will be an incentive to encourage drivers to choose the least polluting car.

And as a second stage for new cars, from April 2010 there will be a new first-year rate based on carbon dioxide emissions of the car.

Cars that emit less than the proposed 130 grams per kilometre European standard of carbon dioxide emissions will pay no car tax at all in the first year.

But a higher first year rate will be introduced on the most polluting cars.

Cutting taxes for those who cut carbon emissions.

But it is right that if people choose to buy a more polluting car that they should pay more in the first year to reflect the environmental cost.

The changes will provide a real incentive to manufacturers and motorists.

We must encourage sustainable biofuels. Therefore the biofuel duty differential will be replaced by the Renewable Transport Fuel Obligation.

I am also reforming capital allowances for business cars to increase the incentive to move to lower emitting cars.

Mr Deputy Speaker, today is no smoking day. From 6pm today the duty on tobacco will rise, adding 11 pence to the price of a packet of 20 cigarettes and 4 pence to the price of five cigars.

And to help people to stop smoking, we are continuing the 5 per cent reduced rate of Value Added Tax on smoking cessation products beyond 30 June this year.

Mr Deputy Speaker, as incomes have risen, alcohol has become more affordable.

In 1997, the average bottle of wine bought in a supermarket was £4.45 in today's prices. If you go into a supermarket today, the average bottle of wine will cost about £4.

From midnight on Sunday, alcohol duty rates will increase by 6 per cent above the rate of inflation. Beer will rise by 4p a pint, cider by 3p a litre, wine by 14p a bottle and spirits by 55p a bottle.

Alcohol duties will increase by 2 per cent above the rate of inflation in each of the next four years.

Mr Deputy Speaker, it is only because I have taken these decisions on alcohol and on closing tax loopholes that I am able to provide additional support for families and lift more children out of poverty.

And it also why I am now able to make two further announcements whilst still meeting our fiscal rules.

As the House will know, the basic rate of income tax will fall by 2 pence in April.

Charities play a vital role. We will therefore implement a transitional rate of 22 per cent, to allow them to continue to claim gift aid at the current rate, delivering £300 million worth of relief and will give charities the certainty they need for the next years.

I said that one of the key features of this Budget is fairness. I also want to do more to help older people especially this year.

Mr Deputy Speaker, we are spending £11 billion more in real terms per year on pensions with over half this extra money going to pensioners on the lowest incomes.

From this April, as a result of changes made last year, a further 600,000 pensioners will be taken out of paying income tax.

The pension Credit now guarantees a minimum income of £124 per week from April.

Before 1997 there was no Winter Fuel Allowance.

For this year I have decided to help pensioners who are facing pressures such as higher energy bills. I will raise the winter fuel payment for over 60s from £200 to £250 and for the over 80s from £300 to £400. 9 million pensioner households will be better off.

## **CONCLUSION**

Mr Deputy Speaker, this is a responsible Budget to secure Britain's stability in the face of global uncertainty.

I have made my choice.

Responsible decisions not irresponsible, unfunded promises.

Fairness and opportunity for everyone in Britain.

To secure a strong, sustainable future.

And I commend it to the House.