

Budget 2004

17 March 2004

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BUDGET 2004

PRUDENCE FOR A PURPOSE: A BRITAIN OF STABILITY AND STRENGTH

The Government's economic objective is to build a strong economy and a fair society, where there is opportunity and security for all.

The long-term decisions the Government has taken – giving independence to the Bank of England, new fiscal rules, and a reduction in debt – have created a strong platform of economic stability. The UK economy grew continuously throughout the global downturn that began in 2001, while many of the world's major economies experienced recession. The UK is now experiencing the longest period of sustained low inflation for over thirty years and unemployment is the lowest of the G7 major industrialised economies.

Economic stability provides the platform for building prosperity, achieving social justice with security and opportunity for all, and maintaining investment in public services. With the world economy now strengthening, the challenge is to lock in the UK's stability and strength, and equip the UK to continue to succeed over the long term in a more competitive global economy.

In an increasingly knowledge-driven global economy, success lies in a flexible economy with a strong science and innovation base, and a highly skilled and educated workforce. The Budget sets out a programme of long-term investment in schools, colleges and universities, to give every young person the chance to make the most of their talents. It also sets out plans for new investments in science and innovation, and in a highly skilled workforce through apprenticeships and a New Deal for skills.

The Government is determined that continued progress towards a flexible and highly productive economy is matched with reforms which promote fairness. This Budget continues the action the Government is taking to create a fairer, more inclusive society with opportunity and security for all.

MAINTAINING MACROECONOMIC STABILITY

The Government's long-term economic goal is to maintain macroeconomic stability, ensuring the fiscal rules are met and that inflation remains low. Following growth of 0.8 per cent in the third quarter, UK GDP rose by 0.9 per cent in the final quarter of 2003, above trend rates and the fastest rate of

quarter-on-quarter growth for over three and a half years. As in the 2003 Pre-Budget Report, the recent pick-up in activity seen over the latter half of 2003 is expected to be consolidated through 2004 and into 2005. The Budget 2004 forecast is that:

- UK **GDP** is expected to grow by 3 to 3½ per cent in both 2004 and 2005, unchanged from both the Budget 2003 and the 2003 Pre-Budget Report forecasts. By 2006, with the output gap closed, growth is expected to return to its trend rate of 2½ to 3 per cent; and
- CPI **inflation** is expected to rise through the course of this year to reach its 2 per cent target by mid-2005, as the lagged effects of sterling's depreciation against the euro since 2002, combined with the effects of the strengthening recovery in the world economy, feed through to higher import prices. The credibility of the Government's monetary policy framework is also expected to contribute to returning inflation to target through anchoring inflation expectations.

The public finances are sound and the Government is on track to meet its fiscal rules.

PROMOTING PRODUCTIVITY AND FLEXIBILITY

Productivity growth underpins strong economic performance and sustained increases in living standards. The Government's long-term goal is for the UK to achieve a faster rate of productivity growth than its main competitors. Recent data show that the UK is making some progress in closing the productivity gap with Germany and France. Budget 2004 sets out the next steps the Government is taking to build on this success and further strengthens the drivers of productivity growth, including:

- the publication of a **consultation document to inform the preparation of a ten-year investment framework for science and innovation**, as part of the 2004 Spending Review, committing to grow public investment in the science base faster than the trend rate of GDP growth over the next Spending Review period;
- **a commitment to increase NHS funding for R&D by £100 million by 2008**, to underpin the creation of a new UK Clinical Research Collaboration for the effective and efficient translation of scientific advances into patient care;
- **a New Deal for skills** to ensure that individuals are helped to develop the skills they need for employment and employers can develop the

skilled workforce needed for the success of their business, and extending Employer Training pilots to six new areas;

- **reforms to reduce the regulatory burden on businesses**, including consulting on the implementation of phasing out payment via employers for Working Tax Credit, strengthened Government scrutiny of regulatory proposals, and changing the structure of the UK's tax administration;
- **devolving delivery of regional and local Business Link services** from the Department of Trade and Industry to the Regional Development Agencies;
- **full details of the Local Authority Business Growth Incentives scheme**, allocating £1 billion over three years to boost the role of local authorities in promoting enterprise and economic growth;
- the Barker Review of housing supply, published today, concludes that house building must rise substantially to reduce house price inflation and increase the number of affordable homes. The Government agrees with the need for a significant increase in housing development over time. It intends to **implement a programme of reform to planning and delivery of development as recommended in the Review and consider a package of measures to increase housing supply**, including social housing investment, alongside a Planning-gain Supplement by the end of 2005;
- **a new entitlement for graduates of the world's top 50 business schools to come to the UK** to seek employment; and
- seeking views on how **property investment funds** (a UK version of the successful US Real Estate Investment Trusts) should be structured, to encourage more efficient investment in commercial and residential property.

Further information on these and other reforms to help businesses are set out in the separate press notice, PN 4.

PROMOTING FLEXIBILITY ACROSS THE REGIONS

Budget 2004 also takes new steps to promote greater regional flexibility. In a flexible and dynamic economy, regions must be empowered to harness their indigenous strengths, tackle weaknesses in enterprise, skills and innovation, and to promote growth and full employment in all communities. Key steps include:

- developing further the framework to ensure that regional and local institutions have the flexibilities they need to harness indigenous strengths and overcome regional economic disparities. The Regional Development Agencies (RDAs) were asked to work together to identify the top ten institutional barriers that they believe are currently hindering effective coordination of policy decisions and service delivery in the regions. The Government has published today a full response to the RDAs in *Devolving decision making: 2 – Meeting the regional economic challenge: Increasing regional and local flexibility*;
- the involvement of the nine English RDAs in preparatory work for the Budget. Budget 2004 reflects and responds positively to their contributions; and
- as a valuable contribution to the Government's commitment to achieving a greater regional balance of economic activity, publication of Sir Michael Lyons' final report, *Well Placed to Deliver? – Shaping the Pattern of Government Service*, which sets out a series of recommendations for relocating civil servants and other public sector workers from London and the South East.

The RDAs have an excellent understanding of what is needed to drive economic growth in the regions and how delivery organisations can cooperate more effectively to deliver this. Building on their input into last year's Budget, the RDAs were asked to provide policy advice in five areas: barriers to business start-ups; provision of Government services to small businesses; access to finance for small and medium sized firms; barriers to skills provision; and knowledge transfer between businesses and universities.

The Government is announcing several new measures today in response to the RDAs' representations, including:

- **overcoming barriers to business start-ups**, the Government is announcing today specific proposals to ensure that the measures it has introduced provide support for businesses that re-invest their profits and grow their businesses;
- **providing government services to small businesses**, the Government is announcing today that regional and local Business Link services will be devolved to the RDAs, with a framework for setting national standards and services to be developed with SBS, the RDAs and other Government departments funding business support;

- **improving access to finance** for small and medium sized firms, the Budget announces measures to smooth the flow of funds into Venture Capital Trusts, and its intention to launch a pathfinder round of Enterprise Capital Funds, which will be commercial funds investing a combination of private and public monies in small high-growth businesses;
- **overcoming barriers to skills provision**, as set out in *Devolving Decision Making: 2 – Increasing Regional and Local Flexibility*, the Government is announcing today its commitment to address any institutional barriers identified by the Regional Skills Partnerships to creating an effective and integrated approach to regional skills delivery, whilst taking into account the balance with national policy; and
- **encouraging knowledge transfer between universities and businesses**, the Government is announcing today that it will build the Higher Education Innovation Fund as a permanent third stream of funding for universities in England to further build the capacity in the university sector for knowledge transfer. The Government will develop this policy as part of its ten-year investment framework for science and innovation.

The Government has set out its full response to the RDAs' input into Budget 2004 in a series of regional press notices published today.

INCREASING EMPLOYMENT OPPORTUNITY FOR ALL

The Government's long-term goal is employment opportunity for all - the modern definition of full employment. It aims to ensure a higher proportion of people in work than ever before by 2010. To achieve this, individuals who want and are able to work should be provided with the support they need to enable them to find employment and develop skills. The Government recognises that each individual will face different barriers to work. Delivering full employment therefore requires a personalised approach, with services tailored to the needs of the individual and local circumstances. The Government is taking further steps to move towards its aim of full employment opportunity for all, including:

- **the piloting of a mandatory work-focused interview regime for some existing claimants of incapacity-related benefits** in the Pathways to Work pilot areas;

- **the piloting of a preparation premium of £20 per week** in the Pathways to Work pilot areas, for existing claimants of incapacity-related benefits who undertake relevant activity that supports a return to work;
- **the introduction of a worksearch premium of £20 per week**, available to those in a family in receipt of the Working Tax Credit who are not working, in six pilot areas with high levels of worklessness;
- **the introduction of a second set of Local Housing Allowance Pathfinders in the private rented sector from April 2005;**
- **a package of measures to simplify the rules around Housing Benefit;**
- **from October 2004, an increase in the adult and youth rates of the National Minimum Wage** to £4.85 and £4.10 respectively, and the **introduction of a National Minimum Wage for 16 and 17 year old workers** of £3.00 an hour; together with the Learning and Skills Council and employers, the Government will work to achieve minimum pay levels for apprentices in England of £70 to £80 per week;
- **an extension of measures for lone parents** in six cities with large lone parent populations, including access to NVQ level 3 training; and;
- **'Fair Cities' initiatives**, to be established in three areas later this year, to improve employment outcomes for people from disadvantaged ethnic minority groups.

BUILDING A FAIRER SOCIETY

The Government is committed to promoting fairness alongside flexibility and enterprise so that everyone can take advantage of opportunities to achieve their full potential in a modern, flexible economy. The reforms of the welfare state introduced by this Government reflect its aims of eradicating child poverty, work for those who can and ensuring security for all in old age. The Government is also committed to a modern and fair tax and benefit system, which encourages work and saving and ensures that everyone pays their fair share of tax. This Budget sets out the next steps the Government is taking to support these aims, including:

- **reforming financial support for 16 to 19 year olds**, to increase the proportion of young people who reach the age of 19 equipped with the skills they need to succeed in a modern global economy;
- **additional funding for Sure Start, early years and childcare of £669 million in 2007-08** compared to 2004-05, an average annual real growth rate of 17.3 per cent;
- **a Children's Centre in all of the 20 per cent most disadvantaged wards in England by 2008**, moving towards the goal of a Children's Centre for every community;
- **a £100 payment to pensioner households with someone aged 70 or over to help with their council tax bills**;
- **simplifying the taxation of pensions**, replacing the complexity of eight existing regimes with a single, simplified regime with a lifetime allowance for tax-privileged pension saving;
- **promoting financial inclusion**, focusing on helping households access affordable banking and credit;
- **taking action to protect revenues and modernise the tax system**, including measures to combat fraud and avoidance; and
- **implementing the O'Donnell review recommendations to establish a new customer-focused tax service**, integrating the Inland Revenue and HM Customs and Excise.

As a result of personal tax and benefit measures coming into effect in 2004-05, including the £180 per year increase in the child element of the Child Tax Credit announced in the 2003 Pre-Budget Report, by October 2004, in real terms:

- families with children will be, on average, £175 a year better off, while those in the poorest fifth of the population will be, on average, £425 a year better off;
- a single earner couple with 2 children, with earnings up to the median for full time workers - £22,000 per year - will be at least £4.20 a week better off; and
- a lone parent with 2 children, working 16 hours a week at the National Minimum Wage, will be at least £16.00 per week better off.

As a result of all personal tax and benefit measures introduced since 1997, by October 2004 families with children will be, on average, £1,350 per year better off in real terms while those in the poorest fifth will be, on average, £3,000 a year better off in real terms.

As a result of personal tax and benefit measures introduced since 1997, in 2004-05 pensioner households will be, on average, £1,350 a year better off in real terms while the poorest third will be, on average, £1,750 a year better off.

DELIVERING HIGH QUALITY PUBLIC SERVICES

The Government's goal is to establish world class public services, with extra investment tied to reform and results. The Government's strategy is to deliver improvements in public services through sustained investment and reform to ensure that taxpayers receive value for money.

The 2004 Spending Review will set spending plans for 2006-07 and 2007-08 and will confirm the plans set for 2005-06 in the 2002 Spending Review. In doing so it will consolidate and build on the step change in funding for key public services achieved in previous spending reviews. In Budget 2004, the Government:

- **sets out plans for public service efficiency savings of 2.5 per cent a year over the Spending Review period**, building on the findings of the Gershon Efficiency Review, the Lyons Review of public sector relocation and the O'Donnell Review of the revenue departments, and sets out how this efficiency agenda will be developed in the 2004 Spending Review; and
- **to reflect the high priority the Government attaches to education, England education spending will grow by an annual average of 4.4% in real terms across the 2004 Spending Review period.** By 2007-08, spending will be £7.4 billion higher in England than in 2005-06 and £8.5 billion higher for the UK on top of the uplift for 2005-06 already in spending plans. By 2007-08, education spending in the UK will be 5.6% of GDP, up from 5.4% in 2004-05.

This will mean:

- Children's Centres in each of the 20% most disadvantaged wards, reaching over half of all poor children in England;

- a transformation of all secondary schools to 21st century standards in the next 10 to 15 years with up to one thousand more specialist schools and academies;
- more schools offering extended services, making after schools provision and support the norm, and binding schools into the heart of communities;
- continued progress on standards in schools, and closing the gap in attainment between the best and worst off pupils; and
- an expansion of Higher Education to deliver an advance in progress towards the Government's target that by 2010, 50 per cent of young people will have gone to Higher Education by age 30, while maintaining per student funding levels in real terms.

PROTECTING THE ENVIRONMENT

The Government is committed to delivering sustainable growth and a better environment. It is using a range of economic instruments to address the challenges posed by sustainable development, to tackle local environmental threats and to control and reduce emissions of the gases responsible for climate change and poor air quality. Budget 2004 describes the next steps in the Government's strategy, including:

- **new eligibility criteria for climate change agreements**, which will increase the number of businesses that can participate in the scheme, and **a freeze in the rates of the climate change levy**;
- **a package of measures to promote household energy-efficiency** including a reduced rate of VAT for ground source heat pumps, and possibly for micro-combined heat and power units from 2005, and incentives for the private rented sector to invest in energy-efficiency;
- **duty rates for sulphur-free fuels raised in line with inflation from 1 September 2004**, the duty for ultra-low sulphur fuels set at 0.5 pence per litre above this level from the same date, an increase in rebated fuels rates, and three-year certainty for duty rates on biofuels and road fuel gases;
- **reforms to the tax treatment of company vans and emergency vehicles**, taking 85 per cent of drivers of company vans out of the system altogether;

- **publication of the third progress report on the lorry road-user charging scheme**, which now moves the scheme into the procurement phase, and sets out decisions on key aspects of the scheme's design; and
- **reform of the aggregates levy relief scheme in Northern Ireland.**

Further details of the Government's environmental strategy are set out in the separate press notice, PN 03.

NOTES FOR EDITORS

Further details of Budget 2004 announcements can be found on the HM Treasury website: www.hm-treasury.gov.uk. Additional detail is also included in the press notices listed below. Copies of Inland Revenue and HM Customs and Excise Budget Notes can be found on their websites at www.inlandrevenue.gov.uk and www.hmce.gov.uk respectively.

HM TREASURY PRESS OFFICE

Press enquiries: 020 7270 5238

Non-media enquiries: 020 7270 4558

INLAND REVENUE PRESS OFFICE

Press enquiries: 020 7438 6692 / 6706 / 7327
(out of hours: 07860 359544)

Non-media enquiries: 0845 300 3939
(office hours only)

HM CUSTOMS AND EXCISE PRESS OFFICE

Press enquiries: 020 7865 5471 / 020 8929 4637
(out of hours: 07659 598491)

Non – media enquiries: 0845 010 9000 (National Advice Service)

GOVERNMENT DEPARTMENT INTERNET SITES

Further information and all published documents relating to Budget 2004 may be found on the Internet at the following addresses:

HM Treasury www.hm-treasury.gov.uk

Inland Revenue www.inlandrevenue.gov.uk

HM Customs and Excise www.hmce.gov.uk

Budget 2004

PN 2

17 March 2004

INLAND REVENUE TAX RATES AND ALLOWANCES, NATIONAL INSURANCE CONTRIBUTIONS AND OTHER TAX AND DUTY RATES FOR 2004-05

Rates and allowances for income tax, corporation tax, capital gains tax, inheritance tax, stamp taxes and the pension schemes earnings cap are set out below.

Income tax allowances	2003-04 (£)	2004-05 (£)	Increase (£)
Personal allowance	4,615	4,745	130
Personal allowance for people aged 65-74	6,610	6,830	220
Personal allowance for people aged 75 and over	6,720	6,950	230
Income limit for age-related allowances	18,300	18,900	600
Married couple's allowance for people aged under 75 and born before 6 April 1935	5,565	5,725	160
Married couple's allowance –aged 75 or more	5,635	5,795	160
Minimum amount of married couple's allowance	2,150	2,210	60
Blind person's allowance	1,510	1,560	50
Capital gains tax annual exempt amount:			
Individuals etc:	7,900	8,200	300
Most trustees:	3,950	4,100	150
Inheritance tax threshold	255,000	263,000	8,000
Pension schemes earnings cap	99,000	102,000	3,000

Income tax: taxable bands	2003-04 (£)	2004-05 (£)
Starting rate: 10 per cent	0 – 1,960	0-2,020
Basic rate: 22 per cent	1,961 – 30,500	2,021-31,400
Higher rate: 40 per cent	Over 30,500	Over 31,400

Corporation tax profits	2003-04 (£)	2004-05 (£)
Starting rate: zero	0 – 10,000	0 – 10,000
Marginal relief	10,001 – 50,000	10,001 – 50,000
Small companies' rate: 19 per cent	50,001 – 300,000	50,001 – 300,000
Marginal relief	300,001 – 1,500,000	300,001 – 1,500,000
Main rate: 30 per cent	1,500,001 or more	1,500,001 or more

The main rate of corporation tax for 2004–05 will be 30 per cent.

National Insurance contributions rates and thresholds

Item	2003-04	2004-05
Lower earnings limit, primary Class 1	£77 per week	£79 per week
Upper earnings limit, primary Class 1	£595 per week	£610 per week
Primary threshold	£89 per week	£91 per week
Secondary threshold	£89 per week	£91 per week
Employees' primary Class 1 rate	11% of £89.01 to £595 per week 1% above £595 per week	11% of £91.01 to £610 per week 1% above £610 per week
Employees' contracted-out rebate	1.6 per cent	1.6 per cent
Married women's reduced rate	4.85% of £89.01 to £595 per week 1% above £595	4.85% of £91.01 to £610 per week 1% above £610
Employers' secondary Class 1 rate	12.8% above £89 per week	12.8% above £91 per week
Employers' contracted-out rebate, salary-related schemes	3.5 per cent	3.5 per cent
Employers' contracted-out rebate, money-purchase schemes	1.0 per cent	1.0 per cent
Class 2 rate	£2.00 per week	£2.05 per week
Class 2 small earnings exception	£4,095 per year	£4,215 per year
Special Class 2 rate for share fishermen	£2.65 per week	£2.70 per week
Special Class 2 rate for volunteer development workers	£3.85 per week	£3.95 per week
Class 3 rate	£6.95 per week	£7.15 per week
Class 4 lower profits limit	£4,615 per year	£4,745 per year
Class 4 upper profits limit	£30,940 per year	£31,720 per year
Class 4 rate	8% of £4,615 to £30,940 per year 1% above £30,940 per year	8% of £4,745 to £31,720 per year 1% above £31,720 per year

Working and Child Tax Credits, Child Benefit and Guardian's Allowance Rates

£ per year (unless stated) Working Tax Credit	2003-04 rates	2004-05 rates	Change
Basic element	1,525	1,570	(+45)
Couple and lone parent element	1,500	1,545	(+45)
30 hour element	620	640	(+20)
Disabled worker element	2,040	2,100	(+60)
Severe disability element	865	890	(+25)
50+ return to work payment (16-29 hours)	1,045	1,075	(+30)

50+ return to work payment (30+ hours)	1,565	1,610	(+45)
Childcare element of the Working Tax Credit			
Maximum eligible cost for one child	135 per week	135 per week	(+0)
Maximum eligible cost for two children	200 per week	200 per week	(+0)
Per cent of eligible childcare costs covered	70	70	
Child Tax Credit			
Family element	545	545	(+0)
Family element, baby addition	545	545	(+0)
Child element	1,445	1,625	(+180)
Disabled child element	2,155	2,215	(+60)
Severely disabled child element	865	890	(+25)
Tax Credits Income thresholds and withdrawal rates			
First income threshold	5,060	5,060	(+0)
First withdrawal rate (per cent)	37%	37%	
Second income threshold	50,000	50,000	(+0)
Second withdrawal rate (per cent)	6.67%	6.67%	
First threshold for those entitled to Child Tax Credit	13,230	13,480	(+250)
Income disregard	2,500	2,500	(+0)
Child Benefit/Guardian's Allowance rates 2004-05			
£ per week	2003-04	2004-05	Change
Eldest/only child	16.05	16.50	(+0.45)
Other children	10.75	11.05	(+0.30)
Eldest/only child (Lone parent rate)	17.55	17.55	(+0)
Guardian's Allowance	11.55	11.85	(+0.30)

Stamp Taxes

Transfers of land and buildings (consideration paid)

Rate	Land in disadvantaged areas		All other land in the UK	
	Residential	Non-residential	Residential	Non-residential
	Value of total consideration			
Zero	£0 - £150,000	All	£0 - £60,000	£0 - £150,000
1%	Over £150,000 - £250,000	N/A	Over £60,000 - £250,000	Over £150,000 - £250,000
3%	Over £250,000 - £500,000	N/A	Over £250,000 - £500,000	Over £250,000 - £500,000
4%	Over £500,000	N/A	Over £500,000	Over £500,000

New leases (lease duty)

Duty on the premium is the same as for transfers of land (except that special rules apply for premium where rent exceeds £600 annually). Duty on the rent is charged on the Net

Present Value (NPV). The rates indicated apply to the amount of NPV in the slice, not to the whole value.

Rate	Net Present Value of rent	
	Residential	Non-residential
	Slice of NPV	
Zero	£0 - £60,000	£0 - £150,000
1%	Over £60,000	Over £150,000

The rate of stamp duty / stamp duty reserve tax on the transfer of shares and securities is unchanged at 0.5% for 2004-05.

Tobacco duty rates

From 6pm on 17 March 2004, tobacco duty rates will rise in line with inflation, to maintain the real price of tobacco.

Product	Effect of tax* on typical item (increase in pence)	Unit
Cigarettes	9.2	packet of 20
Cigars	3.3	packet of 5
Hand-rolling tobacco	9.0	25g
Pipe tobacco	5.5	25g

* Tax refers to duty plus VAT

Alcohol duty rates

From midnight on Sunday 21 March, duties on beer and wine will increase in line with inflation.

Product	Effect of tax* on typical item (increase in pence)	Unit
Beer	1	pint of beer
Wine	1	glass
Wine	4	75cl bottle
Sparkling wine	No change	75cl bottle
Spirits	No change	70cl bottle
Spirits-based RTDs	No change	275ml bottle
Cider	No change	litre
Sparkling cider	No change	75cl bottle

* Tax refers to duty plus VAT

NOTES FOR EDITORS

Income tax rates and allowances

The Chancellor announced today that the starting rate limit and basic rate limit are to increase in line with indexation to £2,020 and £31,400 respectively.

As announced at the Pre-Budget Report, the personal allowance for those aged 65 and over will increase in line with earnings from April to £6,830 for those aged 65-74, and for those aged 75 or over to £6,950. This means that no one 65 or over will pay tax unless their income reaches £131 per week. Other allowances, including the personal allowance for those under 65, will be increased by indexation.

The rate of tax applicable to savings income in section 1A, ICTA 1988, other than dividends, is 20 per cent for income falling between the starting rate and basic rate limits. The rates of tax applicable to dividends are 10 per cent for income below the basic rate limit and 32.5 per cent above it.

The rate of relief for the continuing married couple's allowance and maintenance relief for people born before 6 April 1935 is 10 per cent.

National Insurance contributions

National Insurance (NIC) rates and thresholds for 2004-05 were announced in the 2003 Pre-Budget Report. The starting point for employers', employees' and self-employed National Insurance Contributions (NICs) in 2004-05 will increase in line with inflation to £91 per week. NICs are not paid on earnings or profits below this amount. The upper earnings and profits limits for NICs will increase from April 2004 in line with inflation from £595 to £610 a week (£31,720 a year). For the self-employed the rate of Class 2 contributions will be increased in line with inflation to £2.05 a week.

Child and Working Tax Credits rates and Child Benefit

As announced in the Pre-Budget report, from 6 April 2004, the child element of the Child Tax Credit will be increased by £180 per year to £1,625 per year. In addition, the disabled child elements of Child Tax Credit will be up-rated in line with inflation. The elements of Working Tax Credit will also rise in line with inflation. The rates of Child Benefit and Guardian's Allowance will rise in line with inflation from 12 April 2004.

Capital gains tax (CGT)

The annual exempt amount is set at £8,200 for the tax year 2004-05 for individuals, personal representatives of deceased persons, trustees of certain settlements for the disabled, and £4,100 for most other trustees. For individuals, the amount chargeable to CGT is added to the income liable to income tax and is treated as the top part of that total. CGT is charged at the following rates: below the starting rate limit at 10 per cent, between the starting rate limit and basic rate limit at 20 per cent, and above the basic rate limit at 40 per cent.

Rates for trusts

As announced in the Pre-Budget Report, from 6 April 2004 the rate applicable to trusts will be 40 per cent and the Schedule F trust rate on dividends (and similar income) will be 32.5 per cent. Further details about the package of trust measures within the Budget can be found in Press Notice 6: Protecting Revenues.

Inheritance tax

The value of estates above the threshold is taxed at 40 per cent. The estimated number of taxpaying estates in 2004-05 will be about 33,000. This is around 5 in 100 deaths. The inheritance tax threshold is indexed in line with RPI to £263,000 for 2004-05.

The Government has also announced changes that will greatly simplify the inheritance tax system for around 30,000 estates each year. Simplification of the rules will mean that these estates will no longer have to complete a full IHT return.

Pension schemes earnings cap

The main effect of the cap is to set a ceiling on the contributions that can be paid to, and the benefits that can be paid by, tax approved pension schemes. It generally applies to people who contribute to a personal pension scheme, joined an occupational scheme set up since 14 March 1989, or joined any occupational scheme from 1 June 1989 that was set up before 14 March 1989. From 6 April 2001 the cap applied to people who contribute to stakeholder pension schemes. For 2004-05 the cap is increased to £102,000.

Corporation tax

The corporation tax starting rate is 30 per cent. The small companies' rate is 19 per cent for companies with taxable profits between £50,000 and £300,000 and the starting rate is zero for companies with taxable profits below £10,000.

Marginal relief eases the transition from the starting rate to the small companies' rate for companies with profits between £10,000 and £50,000. The fraction used in the calculation of this marginal relief will be 19/400. Marginal relief also applies to companies with profits between £300,000 and £1,500,000. The fraction used in the calculation of this marginal relief will be 11/400.

The profits limits may be reduced for a company that is part of a group or has associated companies. The lower rates and marginal reliefs do not apply to close investment holding companies.

Stamp taxes

The rates and thresholds for Stamp Duty Land Tax remain unchanged. For residential land and property, the rates are 0% for transactions in consideration of £60,000 or less, 1% for consideration over £60,000 to £250,000, 3% for consideration over £250,000 to £500,000 and 4% on consideration over £500,000. For non-residential land and property, the rates are 0% for transactions in consideration of £150,000 or less, 1% for consideration over £150,000 to £250,000, and thereafter the same as for residential land and property. The 0% band for residential transfers in Designated Disadvantaged Areas

extends to £150,000. All non-residential transactions in Designated Disadvantaged Areas are exempt.

For new leases, the rates applicable in respect of the premium are the same as for transfers of land and buildings (except that special rules apply where the rent exceeds £600 annually). For the rental element of new leases, the charge is based on the Net Present Value (NPV), which is the total of the discounted annual rental payments. The NPV is charged at 1% on the excess over £60,000 for residential land and property and 1% on the excess over £150,000 for non-residential land and property.

Budget 2004

PN 3

17 March 2004

PROTECTING AND ENHANCING THE ENVIRONMENT

The Chancellor today announced a range of measures covering transport, waste and emissions to protect the environment and encourage responsible environmental behaviour throughout the UK.

DETAILS

Fuel duty

Duty rates for sulphur free fuels will be increased in line with inflation from 1 September 2004, with the duty for ultra-low sulphur fuels set at 0.5 pence per litre above this level from the same date.

The duty on rebated gas oil (red diesel) and fuel oil will be increased by 2.42 pence per litre, reducing the differential between rebated oils and the main road fuels by 1 penny per litre to underpin the strategic approach to tackling oils fraud. Rebated oils are generally higher in pollutants than the main road fuels, yet bear a much lower rate of duty.

Fuel	Old duty rate (pence)	New duty rate (pence)	Change (pence)
Ultra-low sulphur petrol/diesel	47.10 per litre	49.02 per litre	1.92 per litre
Sulphur-free petrol/diesel	47.10 per litre	48.52 per litre	1.42 per litre
Biodiesel	27.10 per litre	28.52 per litre	1.42 per litre
Liquefied petroleum gas used as road fuel	9 per kg (equivalent to 5.4p per litre)	13.03 per kg (equivalent to 7.82p per litre)	4.03 per kg (equivalent to 2.42p per litre)
Natural gas used as road fuel	9 per kg (equivalent to 6.10p per litre)	11.10 per kg (equivalent to 7.52p per litre)	2.10 per kg (equivalent to 1.42p per litre)
Rebated gas oil (red diesel)	4.22 per litre	6.64 per litre	2.42 per litre

PN 3

The Budget gives three-year certainty for the duty treatment on alternative fuels:

- providing a 20 pence per litre duty differential in favour of bioethanol and biodiesel, guaranteed until at least 2007;
- reducing the duty differential in favour of liquefied petroleum gases by the equivalent of 1p per litre for each of the next three years to 2007; and
- freezing the duty differential in favour of natural gas at its current level (equivalent to 41 pence per litre) to 2007.

Biofuels

HM Customs and Excise will be discussing on the use of input-based taxation for biofuels with stakeholders in summer 2004. The Government will also seek the views of stakeholders the application of Enhanced Capital Allowances for the most environmentally-beneficial biofuels processing plants, with a view to announcing the outcome at the 2004 Pre-Budget Report. The Department for Transport will be publishing the Biofuels Directive consultation paper shortly after the Budget, which will include options on complementary regulatory measures, including a Biofuels Obligation for the transport sector.

Vehicle excise duty (VED)

Budget 2004 announces that VED rates for all vehicles are frozen for this year.

Lorry road-user charging scheme

Today the Government publishes the third progress report on the lorry road-user charging scheme, which sets out the procurement timetable and the design decisions.

Air passenger duty (APD)

Budget 2004 announces that APD rates will be frozen for a third successive year.

Company car tax

The Chancellor today announced that the level of CO2 emissions qualifying for the minimum percentage charge for a petrol car (15%) will be frozen at

140 grams per kilometre for 2006-07. The fuel benefit tax charge applies the same percentage as the company car charge against a set figure. The 2003-04 figure of £14,400 will be frozen for 2004-05.

Emergency service vehicles

Emergency service workers, such as fire and ambulance personnel, are often required to take their vehicles home at night so they can respond quickly to emergencies. The current rules on employees' home to work travel mean that there is a tax and National Insurance charge on this. This Budget announces that this charge will be removed where there is an operational requirement for emergency vehicles to be taken home.

Reform of company vans

A major deregulation of the company van rules is announced in Budget 2004. From 6 April 2005, a nil charge will apply to employees who have to take their van home (for example, who are on call) and are not allowed other private use. As a transitional measure, the benefit in kind charge of £500 (and £350 for older vans) will be continued for all vans where private use is unrestricted. From 6 April 2007, the scale charge for unrestricted private use will increase to £3000 and if an employer provides fuel for unrestricted private use an additional fuel charge of £500 will apply, taking 85% of those who currently pay a charge out of the system. This will not apply to the self-employed.

Climate change levy

Budget 2004 freezes CCL rates for the third successive year. The Government is extending the scope of the current exemption from CCL for energy products used to create other taxable energy products so that it covers new biofuels.

Climate change agreements (CCAs)

The Budget announces details of the new extended eligibility criteria for CCAs, under which energy-intensive sectors can obtain 80 per cent relief from the climate change levy (CCL) if they agree to increase energy-efficiency and reduce emissions.

Businesses that exceed a 12 per cent energy threshold will be allowed to apply for a CCA without first having to meet a test of international competition. Businesses currently eligible for CCAs will remain eligible but, in addition, the Government will extend CCAs to businesses that pass an energy intensity

threshold of 3 per cent and can in some cases demonstrate the existence of international competition issues.

Household energy efficiency

The Chancellor announced today the introduction of a reduced rate of VAT for the installation of Ground Source Heat Pumps from 1 June 2004. On micro-CHP, the Government is ready to extend its support by introducing a reduced rate of VAT on micro-CHP units, taking account of the outcomes from the field trials and will look to introduce this in 2005.

Budget 2004 also announces:

- a landlord's energy saving allowance, which provides individual private landlords with up-front relief on capital expenditure up to a value of £1,500 for energy saving installations of loft and cavity wall insulation in rented accommodation; and
- that the Government will consider introducing a green landlord scheme, this would look at incentives for landlords - possibly through recognition of properties that achieve a sufficient level of energy efficiency.

Landfill tax

In line with the five-year escalator announced in 1999, the standard rate of landfill tax will increase by £1 per tonne to £15 per tonne on 1 April 2004. This will be followed by increases of £3 per tonne in 2005-2006, and of at least £3 per tonne in the years thereafter to a medium- to long-term rate of £35 per tonne. The lower rate of landfill tax - which applies to inactive wastes such as soil that do not give off emissions - will remain at £2 per tonne.

The value of the Landfill tax credit scheme will be revalorised so that for 2004-05 it will be worth £48.3 million.

Recycling landfill tax revenue

Since the 2003 Pre-Budget Report, the Government has published research on the different options for recycling revenue and consulted stakeholders on these. A number of options are now being examined in detail, and consultation with stakeholders is continuing.

Aggregates levy

For the second consecutive year, the Government has decided to freeze the rate of aggregates levy at £1.60 per tonne.

Northern Ireland relief scheme

Following discussions with stakeholders, the Government is today publishing details of how the extended relief scheme will operate later this year, if state aid approval is obtained. These details include how quarry operators can obtain the relief and what they need to do to qualify.

Water and biodiversity

The Government has been considering the scope for using economic instruments to tackle the most pressing environmental issues associated with agriculture. The Government will shortly launch a consultation on measures to reduce levels of diffuse water pollution, including consideration of the possible use of economic instruments.

Building on the current scheme of enhanced capital allowances for business investments in qualifying water-efficiency technologies, the Government will introduce further ECAs for rainwater harvesting equipment in 2004.

NOTES FOR EDITORS

Road fuel gases

LPG provides environmental benefits, particularly in relation to air quality and is useful in terms of CO₂. The Government has committed support to the LPG industry through the duty differential, grants for vehicle conversion and reduced rates of vehicle excise duty - the highest level of subsidy for LPG in Europe. This subsidy was specifically provided to enable the necessary infrastructure to be developed. Thanks to this support the UK now has over 1400 refuelling sites, servicing over 100,000 LPG cars nationwide, with sales of road fuel gases growing from 4 million litres to 200 million litres per year since the Government froze duty in Budget 2001.

Natural Gas vehicles provide environmental benefits, particularly with regard to improved air quality emissions, low noise and reductions in CO₂ emissions compared to diesel equivalents. Growth of the natural gas sector has been slow, but with the freeze of the differential of the fuel, the Government expects

the number of vehicles in the UK to increase substantially from their current level.

Biofuels

Biodiesel sales have increased from almost nil to around 2 million litres per month since the Government introduced a duty incentive in July 2002.

From 1 January 2005 duty on bioethanol will be set at 20 pence per litre below the sulphur free duty rate.

Company car tax

Company car tax was reformed in April 2002. These reforms changed the way that company cars were taxed to better protect the environment, the new system provides an incentive for company car drivers and their employers to choose more fuel efficient cars, removes any incentive to drive unnecessary extra business miles and encourages manufacturers to produce cars with lower carbon dioxide emissions.

The Government's ongoing evaluation of the new emissions-based system has found that in 2003 around 0.15 to 0.2 million tonnes of carbon were saved through reduced CO₂ emissions; company cars travelled an estimated 300 – 400 million business miles less in 2003, helping to reduce congestion; and employers are better off. After one-off costs to implement the changes to the tax calculations, employers are saving around £35 million each year in compliance costs as they do not have to keep records of business mileage. A report of the initial evaluation findings will be published by the Inland Revenue shortly.

The benefit charge where an employee receives free fuel for private motoring in a company car was reformed in April 2003 to follow the environmental principles of the company car tax reform. This is now calculated by applying the same percentage that applies to the company car benefit to a set figure.

Company vans

Budget 2003 announced that the Government would consult on the possible reform of the tax treatment of company vans. The consultation invited responses on the simplification of shared van calculations and the use of environmentally-friendly vehicles, while taking into account fairness and modern working practices.

Climate Change Agreements

The CCA scheme enables energy-intensive sectors to obtain 80 per cent relief from the climate change levy (CCL) if they agree to increase energy-efficiency and reduce emissions. CCAs have already delivered substantial carbon savings, almost three times more than the original target, and the Government believes that extending the eligibility criteria will deliver more.

Climate change levy

The CCL encourages business to use energy more efficiently and to reduce emissions of CO₂. The levy package is expected to reduce emissions by the equivalent of at least 5 million tonnes of carbon by 2010.

It is broadly revenue neutral for business, with CCL revenues recycled back to business by means of a 0.3 percentage point reduction in employer national insurance contributions (NICs) introduced at the same time as the levy (April 2001), and support for energy efficiency and low-carbon technologies.

Energy-saving technology

Enhanced capital allowances (ECAs) for investments in energy-saving technologies were introduced in 2001 and currently cover more than 6,000 approved products. The Government is committed to the continued development of the scheme and in 2004 will introduce further ECAs for a range of new products. This is subject to EU state aid approval and work to define the precise performance standards. Additions to the approved list will be made during the summer.

Landfill Tax

The landfill tax encourages efforts to minimize the amount of waste generated and to develop more sustainable waste management techniques. It contributes to the achievement of the Government's waste strategy targets through the diversion of waste from landfill. Total waste received at landfill sites registered for landfill tax fell by 16 per cent in the period from 1997-98 to 2002-03.

Aggregates Levy

Introduced in April 2002, the aggregates levy seeks to incorporate the environmental costs imposed by aggregates extraction into the price of virgin aggregate, and to encourage the use of alternative materials such as wastes

from construction and demolition. There are early indications that production of virgin aggregate has decreased since the levy's introduction and that construction companies are using more construction and demolition waste rather than sending it to waste disposal sites. The Government is monitoring the impact of the levy to ensure that it is achieving its objectives, and will continue to discuss with the aggregate and construction industries their views on the impact of the levy.

The Northern Ireland Affairs Committee published its report on "The Introduction of the Aggregates Levy in Northern Ireland: One Year On" on 12 March 2004. It indicates that it fully supports the Government's plans to extend the relief scheme that operates in Northern Ireland.

17 March 2004

ENCOURAGING ENTERPRISE, INVESTMENT AND PRODUCTIVITY

Reforms to encourage enterprise, improve access to finance, promote investment and cut unnecessary regulation were announced by the Chancellor today, offering benefits for up to 3.8 million small enterprises in the UK. Encouraging enterprise, innovation and productivity is at the heart of the Government's agenda. Promoting a strong enterprise culture is vital to the success of the UK economy.

DETAILS

Regulatory reform

Unnecessary or poorly implemented regulation can be an obstacle to flexibility, restricting employment growth and competitiveness. The Government is intent on reducing the regulatory burden where it can. The package of deregulatory measures proposed in Budget 2004 will deliver significant benefits to business – combining specific measures to deliver deregulation now, with more fundamental reform of the policy-making processes to improve the quality of regulation and inspection over time, including:

- consulting on the implementation of **phasing out payment via employers for Working Tax Credit**;
- **the Prime Minister to chair the Panel for Regulatory Accountability**, which will be required to clear all new regulatory proposals likely to impose a major burden on business in the context of the overall burden of regulation and based on thorough impact assessments approved by the Cabinet Office;
- a commitment to push for a clear work programme at the Spring Council for the EU Four Presidencies Initiative. The UK has today provided a list of priority areas for regulatory simplification to the Commission;

- a formal consultation with businesses in April about the feasibility of extending common commencement dates to further areas of regulation and tax;
- a commitment to work with business to reduce the burden of inspection and the overlap between enforcement regimes; and
- progress on ongoing work to tackle deregulation in specific sectors – financial services, construction, retail and chemicals.

Venture capital schemes

Measures to modernise the venture capital schemes include:

- a temporary stimulus to investment in Venture Capital Trusts (VCTs) by increasing the rate of income tax relief from 20 per cent to 40 per cent;
- an increase to the annual investment limit for VCTs and Enterprise Investment Schemes to £200,000; and
- changes to the operation of the schemes to introduce greater flexibility and better reflect commercial realities.

Promoting more flexible investment in property

The Chancellor today launches a consultation on the most appropriate structure for a new Property Investment Fund, a UK version of the successful US Real Estate Investment Trusts (REITs), alongside the taxation of related property investment products. In addition, consultations will continue on the introduction of legislation to facilitate the removal of tax barriers to the development of a market in property based derivatives. This will encourage more efficient investment in property.

Local Authority Business Growth Incentives

The Local Authority Business Growth Incentives scheme will allow local authorities to retain a proportion of increases in business rates revenues to spend on local priorities. This provides a direct incentive to work with businesses and support economic development. Following initial decisions in the 2003 Pre-Budget Report, Budget 2004 announces further decisions on how the scheme will operate when it begins in April 2005.

The Deputy Prime Minister has today published details of the baselines, for individual local authorities, as well as proposals on how the ceilings on the amount of revenue that each local authority can retain will be calculated. These can be found on the ODPM website. The Government expects local authorities to retain an additional £150 million in 2005-06, rising to £450 million in 2007-08. This revenue will not be ring-fenced, and there will be no additional cost to businesses.

Reform of Corporation Tax

The Government is committed to a modern, fair and competitive corporation tax system that reflects the increasingly flexible and global business environment. Following the August 2003 consultation document, the Government has published draft legislation on two aspects of Corporation Tax reform which are now being taken forward with effect from 1 April 2004:

- relief for the expenses of managing investments will be available to companies with investment business, whether or not they qualify as investment companies; and
- the scope of transfer pricing and thin capitalisation rules will be amended to include wholly domestic transactions but exclude most domestic or cross border transactions undertaken by small or medium sized enterprises. Full details of this change can be found in the Budget Notes.

The Government remains committed to reform in other areas of the Corporation Tax system. Further detailed legislative proposals will be published later this year, focussing on those areas where the system may create unjustified barriers to modern commercial activity. The Government has concluded that capital allowances should be retained. It will consider further whether the capital allowances system should be modernised and will consider possible changes to the way that leasing transactions are taxed in the light of this decision.

The Government will also continue the wider-ranging dialogue on international issues that was begun during the August 2003 consultation, with a view to maintaining the competitiveness and fairness of the UK corporation tax regime and ensuring that it remains robust.

First Year Allowances for Small Enterprises

The Government is committed to encouraging investment, as a key driver of productivity and growth. In response to representations from a number of representative bodies, the Government announces the extension, for one year from 1 April 2004, of first year allowances for small enterprises from 40 per cent to 50 per cent, to provide a cash flow boost to up to 3.8 million small enterprises when they need it most.

Research & development (R&D) tax credits

Following consultation in summer 2003, new guidelines defining R&D were published by the DTI on 15 March. The guidelines will have effect for company accounting periods ending on or after 1 April 2004. The guidelines are not intended to widen or narrow the definition of R&D, but they are clearer and easier to use. In addition to clear guidelines, a wider range of costs will also qualify for the R&D tax credit. Qualifying costs now include expenditure

on software, power, fuel and water. The R&D schemes will also be modified to prevent any change in the timing of the R&D relief from companies' adoption of International Accounting Schemes.

The Inland Revenue will continue to focus on implementation of the tax credits by producing improved guidance in support of the R&D tax credits in advance of the 2004 Pre-Budget Report, after which it will embark upon a programme to improve delivery of the credit. It also plans to issue regular information on R&D tax credits in its publication of National Statistics.

Gift Aid and day admissions

The Government recognises the concerns expressed in representations from charities about possible changes to Gift Aid and will continue to discuss with charities the best way forward. Charities will have until mid-June to feed in their views to the Inland Revenue. It aims to announce the results of the consultation around the time of Spending Review 2004.

Investment in the film industry

The tax relief for British qualifying films, which is due to expire on 1 July 2005, will be replaced by a new relief for production expenditure incurred that can either be offset against profits or surrendered to the Treasury for a cash payment. The new relief will typically provide filmmakers with 20 per cent of the production budget compared with the 15 per cent they typically receive under the existing Section 48 relief. The Government is currently reviewing the treatment of co-productions, involving production expenditure both in the UK and outside the UK, with a view to creating a tighter definition of British Qualifying Status. The Government also wishes to consider the scope for the new relief to improve the proportion of British films produced being distributed. Following further discussions with the industry and other stakeholders, full details of the new relief will be published in the summer.

Reducing VAT compliance costs for business

From 1 April 2004, the VAT registration threshold will be increased in line with inflation from £56,000 to £58,000, keeping 5,000 of the smallest firms out of the VAT system. This remains the highest threshold in the EU.

From 1 April 2004 the turnover ceiling for businesses wishing to use the VAT annual accounting and cash accounting schemes will be increased from £600,000 to £660,000, making the scheme available to an additional 13,000 small firms.

North Sea exploration

As announced at the 2003 Pre-Budget Report, as a further measure to encourage investment to help maximise recovery of economic UK oil and gas reserves, the Government will introduce an exploration expenditure

supplement (EES) of 6 per cent per annum for up to 6 years, effective from 1 January 2004. The EES will maintain the value of the 100 per cent exploration and appraisal allowance over time for new North Sea companies.

Loan relationships and derivative contracts regimes

The Government proposes to make a number of changes to the loan relationships and derivative contracts regimes to ensure that they operate as intended, provide greater certainty for business, and remove opportunities for avoidance. These are in addition to the measures helpful to the Venture Capital Industry and companies in administration announced at the 2003 Pre-Budget Report. Full details can be found in the Budget Notes.

NOTES FOR EDITORS

Regulatory Reform at EU level

The Government is working with counterparts in Ireland, the Netherlands and Luxembourg to help drive forward regulatory reform in the EU over the next four EU Presidencies. Their proposals were discussed by European economics and finance Ministers on 9 March and will be highlighted at the Spring European Council on 25-26 March. As part of this, the Government has consulted with business and other stakeholders about areas where EU law is too complex – and has today submitted a list of overly complex regulations to the European Commission.

Common commencement dates

Common Commencement Dates are consolidated implementation dates for changes to regulation, intended to provide business with greater stability and enhance compliance with regulatory changes. The DTI is currently piloting the use of two common commencement dates a year for employment regulation. The consultation to be carried out from April will consider the feasibility of applying the common commencement date principle to other areas of regulation and tax, and will ask business to consider which areas of regulation should be included in such an approach to maximise the benefit to them. To consider the potential application to environmental regulations, DEFRA will conduct a study to run in parallel with this consultation.

Sector-specific measures

The Business Regulation Team at the Cabinet Office Regulatory Impact Unit has been considering the impact of regulations on the three sectors identified by the Chancellor in Budget 2003: environmental services, construction and transport. The reviews are progressing well, and specific measures flowing from the reviews include plans to establish new industry/cross-government

forums on policy and regulation development for the construction, chemicals and retail sectors. These groups will give early warning of, and provide an opportunity for industry to express its views on, emerging policy and regulatory proposals emanating from the UK and EU. Following concerns expressed by the construction industry on unreasonable delays in payment, the Government will review the operation of the adjudication and payment provisions in the Housing Grants, Construction and Regeneration Act 1996 to identify what improvement can be made.

Promoting more flexible investment in property

The consultation published today *Promoting more flexible investment in property* considers how the legal and tax elements of a new Property Investment Fund might be structured, in order to improve the efficiency and flexibility of investment in property and encourage access to property investment for smaller investors. The deadline for consultation responses is 16 July 2004.

Reform of Corporation Tax

The consultation document *Corporation tax reform* was published on 12 August 2003 and took forward the Government's programme of building a modern and competitive tax system.

The August 2003 consultation sought views on proposals for taking forward reform in the three main areas set out in the August 2002 consultation document:

- rationalisation of the way in which the schedular system taxes different types of corporate income to provide more flexibility in the way in which losses from one activity can be set off against profits arising from another;
- changes to the tax treatment of trading and investment companies to remove outdated restrictions and facilitate group restructuring; and
- changes to the tax treatment of capital assets to reduce distortions in the tax system.

The consultation also addressed the reform of corporation tax in its wider international context and recognised the influences of a competitive business environment, international agreements and legal developments.

Gift aid and day admissions

A special statutory exemption allows certain heritage and conservation charities to offer free admission in return for a donation which attracts Gift Aid. This was an unintended side effect of the Gift Aid legislation and it was

announced in the Pre-Budget Report that the Gift Aid scheme would be amended following discussions with charities on the best way to do this.

17 March 2004

PROTECTING REVENUES

A package of measures to tackle the problem of tax avoidance, protect revenues for investment in public services and maintain the integrity of the tax system was announced by the Chancellor today.

DETAILS

Tackling Tax Avoidance

The Government is introducing a new disclosure measure to counter large-scale avoidance of direct taxes. This will require those who devise and market certain avoidance schemes to provide the Inland Revenue with details of these schemes. This will improve transparency and allow the Inland Revenue to make a swifter and more targeted response to deliberate abuses of the tax system.

This will be complemented by measures to improve transparency in VAT transactions. A register of VAT abusive avoidance schemes will be published, and businesses with an annual turnover of £600,000 or more will be required to disclose use of these schemes to Customs and Excise. Businesses with an annual turnover of £10 million or more will also be required to disclose details of VAT schemes and arrangements that meet certain criteria.

The Inland Revenue and Customs & Excise have begun discussions with the tax administrations of Australia, Canada and the United States to establish a joint task force to increase collaboration and coordinate information about abusive tax transactions. They plan to share expertise, best practices and experiences within the framework of the four countries' existing tax treaties. Representatives of the four administrations will be meeting in Washington shortly to finalise plans for this initiative.

Small business tax incentives

The Government is committed to support for all types of small business, and believes that transition to the corporate legal form can be an important step in the development of a business. At the same time the Government wants to ensure that the support provided for small companies to promote growth and enterprise does not encourage businesses to incorporate solely for tax reasons.

As set out in the 2003 Pre-Budget Report, the Government announces specific proposals to ensure that the measures it has introduced provide support for businesses that reinvest their profits and grow their businesses. The Government will also take steps to reinforce compliance with the tax system by the smallest companies, while ensuring that compliant businesses do not face additional burdens. The measures announced today are:

- a minimum corporation tax rate of 19 per cent on profits distributed to individuals on or after 1 April 2004, with the zero-rate on retained profit remaining to incentivise businesses to re-invest;
- the requirement for newly incorporated businesses to disclose basic tax information will be strengthened; and
- the extension, for one year from 1 April 2004, of first year allowances for small enterprises from 40 per cent to 50 per cent, to provide a cash flow boost to up to 3.8 million small enterprises when they need it most.

The Government will also consider measures to strengthen anti-avoidance legislation on loans made to shareholder directors of close companies.

To ensure that targeted tax incentives support the Government's objectives for growth, enterprise and productivity, the Government proposes to consider the issues raised by the interaction with the tax system of definitions of income of self-employment, and the remuneration paid to owner-managers, in a discussion paper which will be issued at the time of the 2004 Pre-Budget Report.

Modernising trusts

The 2003 Pre-Budget Report announced a series of measures designed to tackle complex tax avoidance schemes using trusts, and made clear the Government's intention to protect the most vulnerable. The Government has been clear since the outset of consultation that the income tax charge on pre-owned assets, which takes effect from April 2005, would not affect legitimate transactions between family members.

The Government has also consulted on ways to make the system of trust taxation less burdensome for those not using trusts for tax avoidance purposes. The Government has today announced that it will:

- bring in new rules so that trusts set up for the most vulnerable are taxed as if the vulnerable person was receiving the income and gains directly, therefore ensuring that they enjoy the full benefit of their personal allowances and lower rate bands; and
- introduce a basic rate band for trusts, which means that around 30,000 trusts that receive small amounts of taxed income will have no further liability and will no longer have to submit a self assessment return every year.

VAT grouping

In light of responses to the consultation announced at the 2003 Pre-Budget Report, new modified legislation is being introduced that is more targeted on cases where there may be avoidance. This will primarily affect businesses in the VAT exempt-sectors that use artificial structures that allow a customer to be VAT grouped with a supplier who is, to all intents and purposes, independently owned. The new rules will come into effect from 1 August 2004.

VAT avoidance on commercial buildings

Legislation to be introduced on 18 March 2004 blocks a VAT avoidance scheme relating to land and buildings. Businesses who are likely to be affected are those which are not entitled to recover all the VAT they incur on the purchase of land or buildings, and which avoid VAT by the use of artificial structures designed either to increase the amount of input VAT they can claim or to spread the VAT cost of purchase or construction over a number of years.

VAT on demonstrator cars

Upon receipt of a derogation from the European Union, new rules - in place from Royal Assent - will tackle underpayments of VAT on the private use of demonstrator cars. These rules will affect motor dealers and manufacturers who seek to avoid paying VAT when they make demonstrator cars available to employees.

Partnerships

New measures are being introduced with immediate effect to close down corporation tax avoidance schemes involving companies operating through partnerships. The schemes usually operate through artificial manipulation of profit shares between UK and offshore partners. The changes ensure that taxable profits wrapped up in untaxed increases to a company's share in a partnership are charged properly to corporation tax.

Stamp Duty Land Tax

Legislation will be introduced with effect from Royal Assent to bring certain partnership transactions, where the partnership property includes an interest in land, within the scope of Stamp Duty Land Tax (SDLT).

Currently, most transfers of an interest in land into, within or out of a partnership, are excluded from SDLT and can effectively be transferred between persons without payment of SDLT. To improve fairness and to tackle potential avoidance by using partnerships to invest in property, the legislation will bring such transfers within the scope of SDLT.

Budget Note IRBN 38 detailing the changes has been issued today.

Petroleum Revenue Tax

Effective from today, two measures will be introduced to protect Petroleum Revenue Tax (PRT) revenues: one to prevent the generation of artificial costs through the trading of assets with low market value at artificially high prices between connected companies; the other to prevent the creation of a loss, which can be set against the PRT liability in another field as a result of the successive transfer of a field interest towards the end of field life. The potential revenue loss from these loopholes is over £1 billion in the long term, with at least £200 million at risk now.

Jointly owned assets

From 6 April 2004, the Government will legislate to ensure that married couples will be taxed on dividends from jointly owned shares in close companies (mainly companies owned by their directors or five or fewer people) according to their actual ownership of the shares. For example if a spouse is entitled to 95% of the income from some jointly owned shares they will pay tax on 95% of the dividends from those shares. This closes a loophole currently being exploited by owners of close companies, and will not apply to income from jointly owned shares in non-close companies or to other assets in joint names such as rental property.

Red diesel

Budget 2004 announces an increase in the duty on rebated gas oil ('red diesel') and fuel oil of 2.42 pence, to narrow the differential between these and the main road fuels and reduce the overall attractiveness of oils fraud. When combined with the ongoing impact of other measures under the UK oils strategy, this will assist Customs in achieving the aim of reducing the illicit oils market in England, Scotland and Wales to no more than 2 per cent in 2006.

Accrued Income Scheme

The Government will be consulting stakeholders on how to make the Accrued Income Scheme (AIS) simpler and easier. Since its introduction in 1985, the AIS has grown in complexity, and can be difficult to understand and comply with.

Inland Revenue New Compliance Package

A package of measures to improve compliance in direct taxes was announced today. The package provides additional resources for the Inland Revenue to improve how it manages compliance and enforcement in key high-risk areas. The package specifically focuses on improving compliance through:

- improving information management to better target and improve the effectiveness of compliance activity within the department;
- a set of enabling measures to raise awareness of tax obligations, including a publicity campaign and direct contact;
- measures to identify non-compliant ghosts and moonlighters, and then working with these people to keep them compliant; and
- expanding specialist teams in specific areas.

Alcohol strategy

Budget 2004 confirms the introduction of legislation implementing tax stamps for spirits from April 2006, helping consumers, traders and Customs to identify spirits on which UK duty has not been paid. This will save an estimated £160m a year in revenue losses from spirits fraud. A package of measures will be introduced to help minimise and offset the additional costs to business, including:

- subject to further detailed discussion with industry, seeking to implement the scheme without requiring upfront payment for stamps – preventing increased cash flow costs;
- setting aside a £3 million fund for assistance with capital investment, targeted at the smallest firms, to mitigate upfront costs;
- meeting the production and distribution costs associated with tax stamps; and
- to help absorb any costs passed through into prices, freezing spirits duty for the remainder of this parliament, meaning that by 2005-06 the tax on a bottle of spirits will be 36p lower in real terms than in 2003-04.

NOTES FOR EDITORS

Government strategy to tackle fraud and avoidance

Measuring and Tackling Indirect Tax Losses, published alongside the 2003 Pre-Budget Report, set out progress in the Government's strategies to reduce losses in indirect tax regimes through fraud, avoidance and general non-compliance.

Accrued Income Scheme

The AIS prevents avoidance of income tax where a person sells a security just before the interest payment date and buys it back shortly afterwards. It works by apportioning the interest on a time basis between the seller and buyer and taxing each party accordingly.

Small Business Tax Incentives

The corporation tax main rate is 30 per cent. The small companies' rate is 19 per cent for companies with taxable profits between £50,000 and £300,000, and the starting rate is zero for companies with taxable profits of £10,000 or less. Marginal relief applies to companies with profits between £10,000 and £50,000, and between £300,000 and £1,500,000.

From 1 April 2004, profits that are distributed from a company to an individual will be subject to a minimum of 19 per cent corporation tax. The lower rates above will continue to apply to profits that are reinvested in the company, or distributed to corporate entities, and companies with taxable profits subject to a rate of corporation tax of 19 per cent or higher will be unaffected.

Newly incorporated businesses are asked to complete the Inland Revenue Form CT41G, which provides basic tax information on the company and the company directors. Many companies already comply with this information request. Legislation will be brought forward in Finance Bill 2004 to make completion of this form compulsory.

Section 419 of the Income and Corporation Taxes Act is an anti-avoidance provision that applies a notional tax rate of 25 per cent to loans made to directors of close companies under specific circumstances.

17 March 2004

HELPING PENSIONERS, CHILDREN AND YOUNG PEOPLE

The Government is today confirming a radical simplification of the pension tax regime, announcing more help for pensioners, and announcing a number of measures support children and young people.

DETAILS

Simplifying the taxation of pensions

Following the National Audit Office review the Government will proceed with the simplification of the pensions tax regimes. It will remove the existing complex rules and regulations, replacing them with a single lifetime allowance for the level of tax relieved saving. The lifetime allowance limits the amount of tax privileged pension saving; those who can afford to save more will be free to do so, but without the benefit of further tax relief. Legislation will proceed in Finance Bill 2004.

The Government is therefore proceeding with the proposals set out in the December 2003 document, replacing the eight current regimes with a single lifetime allowance on the amount of tax-privileged pension saving. In response to concerns expressed in the consultation, the Government will legislate in Finance Bill 2004 to implement the simplified regime in April 2006, allowing employers and providers sufficient time to implement fully the benefits of simplification; set the lifetime allowance on introduction to reflect an April 2006 implementation date; to provide certainty, pre-announce the lifetime allowance for all years up to 2010 such that it increases steadily to £1.8 million in 2010; and review the lifetime allowance level and indexation every 5 years, with the first review in 2010.

The reforms will bring simplification and increased flexibility that will ensure a transparent, consistent and flexible system that is readily understood, making it easier for people to concentrate on deciding when and how much to save for retirement.

Help for pensioners

The Government understands that older people on fixed incomes face pressures such as higher council tax bills and thus a reduction in their standard of living. Council tax consumes a greater proportion of the incomes of older pensioners. Therefore the Budget announces a £100 payment to pensioner households with someone aged 70 or over to help with their Council tax bills.

All eligible applications for the Pension Credit received before October 2004 will be backdated to the start of the Pension Credit in October 2003 or the date of the entitlement if that is later. For applications received after October 2004, the maximum period of backdating allowed will be extended from three months to 12 months. The Pension Service is promoting a range of measures to encourage claims and increase take up including a pilot of benefits entitlement checks for vulnerable groups such as the over 80s and the elders in our ethnic communities.

Deferral of state pension

The Government is introducing the option of taking a deferred state pension as a taxable lump sum instead of higher weekly pension payments. Those choosing to defer their state pension by at least one year from April 2005 will be able to take the lump sum. Interest will be payable on the deferred pension for those choosing the lump sum at Bank of England base rate plus 2 per cent.

Review of financial support for 16-19 year olds

The Chancellor announced a cross-departmental review of financial support for 16-19 year olds in Budget 2003. The review's report, *Supporting young people to achieve: towards a new deal for skills*, is published today alongside the Budget. The report sets out the Government's vision that all young people should reach age 19 equipped for higher education or skilled employment. The report also outlines a series of measures to improve choice, deliver decent levels of minimum income and deliver an individualised professional service to young people, including:

- removing the distinction, in Child Benefit, Child Tax Credit and Income Support, between full-time education and unwaged training;
- working to achieve a fair minimum level of wages for employed trainees at £70-80 a week; and
- extending Child Benefit, Child Tax Credit and Income Support to 19 year olds until they finish their course.

National Minimum Wage for 16-17 year olds

The Government has accepted the Low Pay Commission's recommendation that 16 and 17 year old employees should be covered by a new National Minimum Wage rate of £3 per hour from October 2004.

New support for childcare

Budget 2004 announces a settlement for Sure Start, childcare and early years, giving additional funding of £669m by 2007-08 compared to 2004-05. This will establish Children's Centres in all of the 20% most disadvantaged wards in England by 2007-08, making Sure Start type services available to the 56% of poor children who live in these disadvantaged areas. This will mean 1700 Children's Centres by March 2008, providing services and linked childcare places, another significant step forward towards the goal of a Children's Centre for every community. The settlement will support 100,000 new childcare places, including in extended schools, and a pilot to extend a free part-time early education place to 6,000 two-year olds in disadvantaged areas.

Building on the Pre-Budget Report announcement of a new tax exemption for employer supported childcare from April 2005, the Government will be consulting on a new light-touch voluntary accreditation scheme to extend the range of good quality childcare eligible for financial support.

NOTES FOR EDITORS

Pensions tax simplification

The Government welcomes the NAO report commissioned at the 2003 Pre-Budget report. The NAO concluded that £1.4 million is broadly equivalent to the maximum pension allowable under the current occupational pensions regime, which includes the earnings cap.

The estimate of 5,000 people is at the lower end of a range of reasonable estimates. Sensitivity testing and other evidence is consistent with an estimate of around 10,000. Other estimates of the numbers affected – up to 600,000 have been quoted – include large numbers of people already capped by the existing earnings cap, and so are not directly comparable. There is no evidence to discredit the original estimate of around 1,000 people a year who will be affected in each of the next ten years.

The Budget sets out that the lifetime allowance will be £1.5 million in 2006; £1.6m in 2007; £1.65m in 2007; 1.75m in 2009; and 1.8m in 2010.

16-19 review of financial support

Alongside the Working Group on 14-19 Reform, led by Mike Tomlinson, looking at radical reform of the qualification framework, *Supporting young people to achieve: towards a new deal for skills* sets out a consultation on the Government's long-term vision of a single, coherent system of financial support for 16-19s to ensure that young people are equipped for higher education or skilled employment.

Childcare

The Secretary of State for Education and Skills will make an announcement shortly on the childcare settlement. The settlement reflects the findings of the Childcare Review announced by the Chancellor in Budget 2003.

The light touch voluntary accreditation scheme will extend the range of good quality childcare eligible for financial support, through either the childcare element of the Working Tax Credit or the new provisions on employer supported childcare which were announced in the 2003 Pre-Budget Report for implementation from April 2005.

17 March 2004

DELIVERING STABILITY: SECURING OUR FUTURE HOUSING NEEDS

The Chancellor of the Exchequer and Deputy Prime Minister today welcomed the final report of Kate Barker's review of housing supply, which shows how greater stability in the housing market can be achieved and how to make housing more affordable for more people. The Review sets out a challenging set of reform proposals for central and local government and the house building industry to deliver increased housing supply.

The Government accepts the need for reform and intends to implement a programme of change as recommended in the Review.

Deputy Prime Minister John Prescott said:

"This report will help us to carry forward the agenda for change we set out in our £22 billion Sustainable Communities Plan. Kate Barker sets out the challenges we face in tackling housing shortages in the south and housing collapse in the north. We are already making changes to the planning system and increasing funding for affordable housing. However, as Kate Barker's report makes clear we need to do more to increase the supply of affordable and sustainable homes. We accept the need for increased investment in social housing, and are determined to provide more affordable housing, especially for key workers, and young families. But we must avoid the mistakes of the past, delivering not just housing, but the infrastructure that sustainable communities need, whilst protecting the countryside. We will work with local authorities, business and other stakeholders to achieve this."

In his Budget speech Chancellor Gordon Brown said:

"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 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. I hope that over the next year all parties will study the Barker proposals 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 and prosperity of Britain.”

The Barker Review shows that in order to deliver long-term stability the current level of house building will not suffice and a substantial increase in housing supply is required. A failure to increase supply risks increasing excess demand for housing, further and threatening volatility in the wider economy. A failure to increase supply also means diminishing affordability of housing in the private sector. The Barker Review shows how house price inflation has made home ownership in the private sector increasingly unaffordable for many groups in the population, particular for first-time buyers, with knock-on impacts on rent levels in the private sector and on demand for social housing, which already outstrips supply. This diminishing 'market affordability' has a direct impact on social exclusion and on the housing opportunities available to young people and others.

The Government agrees that to deliver its commitment to stability and affordability needs a significant increase in housing development over time. The Government will need to consider the scale of such development and how it can be delivered both nationally and regionally taking into account the economic, social and environmental implications and ensure that development is sustainable. The Government will establish a long-term market affordability goal incorporated within the Public Service Agreement process as recommended by the Review and will consult on how this should be delivered over the course of the next 18 months.

The Barker Review highlights the case for increased social housing to meet society's needs. The Government accepts that there is a case for increased investment in social housing and will begin to address this in the 2004 Spending Review.

Kate Barker sets out challenging reform proposals to deliver increased supply. The Government accepts the need for reform and intends to implement a programme of change as recommended in the Review. The Government is already taking action but recognises the need to do more. The Government will therefore consult with stakeholders on:

Planning, by:

- considering how Regional Planning Bodies and Regional Housing Boards can be merged to create a single body responsible for managing regional housing markets, and how they can be supported by stronger independent advice on the steps required to achieve affordability goals;
- improving the delivery and responsiveness of the planning system by allocating land in a way that provides developers with sufficient land to ensure delivery of agreed housing numbers and more choice as to which sites to develop and incorporates market based triggers for additional land release;

- revising planning policy on housing to consult on the application of market information and signals into the system and a presumption in favour of granting planning permissions which conform to local plans; and
- speeding up planning decisions through the allocation of £130m from the Planning Delivery Grant to reward good planning performance, with further allocations of £170 million for 2005-06.

Delivering development, by:

- providing incentives to support infrastructure to enable housing development through a Community Infrastructure Fund, making a start as part of the Spending Review;
- building on the Local Authority Business Growth Incentive scheme to consult on creating incentives to local authorities to deliver housing growth;
- considering how government policy across all stakeholder departments can better take account of planned housing and population growth in their allocation decisions alongside other priorities; and
- asking English Partnership's to take a lead role in assembling complex sites for development, including the use of Public Private Partnerships, surplus public sector land and joint ventures.

Economic incentives, by:

- launching today a consultation document, 'Promoting more flexible investment in property', seeking views on how a new Property Investment Fund, a UK version of the successful US Real Estate Investment Trusts, might be structured to meet the Government's objectives of further enhancing the liquidity of property investment, providing greater access to retail investors and encouraging expansion in the private rented sector; and
- announcing its intention to introduce a Derelict Land Tax Credit that will provide a tax incentive for the development of derelict brownfield land.

Industry, where the review:

- sets out a series of challenging reform proposals to the industry to increase customer satisfaction, tackle skills shortages, increase the flow of new houses onto the market and improve design and use of modern methods of construction. The Government and the industry must work in partnership to deliver these reforms. The Government will consider the progress made by summer 2005.

Delivering the Barker review package

The Barker Review concludes that a Planning-gain Supplement based on the uplift when land is sold for development would be an efficient source to release resources to help in the expansion of housing supply.

The Government accepts that, in order to meet the key objectives of stability and improved market affordability, there is a good case for additional social housing investment, incentives to local authorities to deliver housing growth, support for infrastructure to complement new developments and potentially support to the industry to train their employees to deliver this challenging agenda, all of which would require additional investment. The Government agrees with the recommendations of the Review that it is in principle fair to fund this proposed package of measures out of the uplift in land values experienced during the development process. This could also alter the balance of incentives between greenfield and brownfield development, helping to encourage a more efficient use of land.

Achieving long-term stability will require the delivery of all the elements within this overall package. The Government will work with stakeholders to ensure that the necessary conditions are in place for the package proposed by Kate Barker to succeed. Therefore, in considering a package of reforms to follow the Barker Review, the Government will need to be sure that:

- planning reforms are underway and the system is delivering a coherent and efficient service capable;
- there is a positive impact on supply from the introduction of these incentives;
- the industry is responding to the Review's recommendations and is capable of rising to the challenge;
- the 2004 Spending Review has begun to put in place increased investment for social housing; and
- the design of the proposed Planning-gain Supplement is effective and workable.

The Government will review progress against these objectives by the end of 2005. If the Government is satisfied that these are all on track, it will bring forward this package to deliver economic stability and improved affordability to address housing needs.

NOTES FOR EDITORS

The Sustainable Communities Plan

The Sustainable Communities Plan (SCP) is a long-term programme of action backed by £22 billion of investment to improve housing and planning in order to build sustainable thriving communities. It covers a wide agenda, which recognises that to develop communities in which people wish to live, housing policy needs to be linked to improving economies, public services, transport and the environment at a local level.

The SCP recognises the importance of affordable housing in maintaining balanced and successful communities. Our aim is to deliver new affordable housing where it is needed, in more sustainable forms. We're investing £5bn in more affordable housing, including £1 billion for key worker housing, over the three years to 2005-06 - double the level in 1997.

Latest figures show a continuing increase in new house building in England. Starts and completions in the quarter to December 2003 were up 10% and 8% on the previous year. In London and the wider South East some 14% more new homes were provided in 2002-03 than the year before.

Under the SCP the Government has identified four growth areas (Thames Gateway, Ashford, Milton Keynes / South Midlands, London-Stansted-Cambridge) where the Government will concentrate additional housing. Combined with London, the growth areas have the potential to deliver an extra 200,000 homes above planned levels and over 300,000 jobs.

A new Key Worker programme to help keep the skills needed in key public services, such as in health, education and community safety, will be launched later this month. The new programme builds on the success of the Starter Home Initiative, which is on track to place 9,000 key workers into home ownership by 31 March 2004.

ODPM is working hard to meet its commitment to make all social housing decent by 2010. Since 1997 funding for housing has trebled, helping to reduce the number of non-decent homes by 1 million. The Government is investing £2.8bn over the next three years to improve council housing (three times what it was in 1997).

The Barker Review report can be found on www.barkerreview.org.uk

Further details on the Sustainable Communities Plan can be found on ODPM's website: www.odpm.gov.uk

ODPM PRESS OFFICE

Press Enquiries: 020 7944 8915
020 7944 5945 (out of office hours)

Public Enquiries: 020 7944 4400

17 March 2004

A NEW CHIEF EXECUTIVE FOR THE OFFICE OF GOVERNMENT COMMERCE

The Prime Minister, with the agreement of the Chancellor, has appointed John Oughton as the new Chief Executive of the Office of Government Commerce (OGC), which leads the drive to modernise government procurement and deliver value for money savings in the government's commercial activities. Mr Oughton, who has been the deputy Chief Executive since April 2003, will take over as Chief Executive from Sir Peter Gershon on 1 April 2004. He will also be joining the Treasury Management Board as a non-executive member.

Chancellor of the Exchequer, Gordon Brown said:

“I am delighted that John Oughton has been appointed. He brings a wealth of expertise and experience to the job. He is a worthy successor to Sir Peter Gershon, and will play a key role in improving government procurement and promoting efficiency across the public sector. I am very grateful to Sir Peter both for setting up the Office of Government Commerce and for making it a key driver for public sector reform. I welcome his continuing non-executive role in supporting efficiency implementation.”

DETAILS

Implementing efficiency

Reporting jointly to the Prime Minister and the Chancellor, John Oughton will be responsible for implementing the efficiency review, instituted in Budget 2003 and taken forward in its first phase by Sir Peter Gershon. He will work closely with the Treasury and other Government departments, and will chair an interdepartmental steering group, which will oversee implementation. The steering group will comprise key departmental representatives as well as external members.

The Spending Review will require efficiency improvements across the public sector of 2.5 per cent a year over the SR2004 period (2005-06 to 2007-08). The Office of Government Commerce, working with departments and the wider public sector, will play a key role in delivering these improvements.

On procurement, having achieved value for money gains of £1.6billion since its inception to March 2003 and with a target to realise further gains of £3 billion in central government civil procurement by 2005-06, a new target is being set:

- to deliver a further £3 billion across the SR2004 period – 2005-06 to 2007-08 – in central government civil procurement.

Sir Peter Gershon has agreed to stay on as a non-executive member of the Treasury Management Board after his departure from the OGC. He will also sit on the interdepartmental steering group overseeing the implementation of the efficiency review to ensure continuity and to enable him to play a key role in the implementation of his recommendations on efficiency.

NOTES FOR EDITORS

John Oughton (51) is currently Deputy Chief Executive of the OGC, leading the OGC's work to support government departments in delivering major acquisition programmes and projects successfully. In a public service career in the Ministry of Defence, the Cabinet Office and now the OGC in the Treasury, John has held appointments in both the policy and delivery fields. He was Director of Procurement Policy in the Ministry of Defence. Under the previous government he was, from 1993-1997, Head of the Government's Efficiency Unit, and he continued in this role after May 1997, when the Efficiency Unit worked with No 10 and the Treasury on the new government's first comprehensive spending review. From 1998 until 2003 he was, in the Ministry of Defence, the senior civilian responsible for leading the modernisation programme in the new Defence Logistics Organisation, first as head of the implementation team creating the DLO and then as Deputy Chief of Defence Logistics.

The Office of Government Commerce (OGC) is an independent Office of the Treasury reporting to the Chief Secretary. It is responsible for a wide-ranging programme that focuses on improving the efficiency and effectiveness of central civil Government procurement. In addition, OGC has an important role in developing and promoting private sector involvement across the public sector. From 2003-04, OGC has assumed a key role in assisting departments set up project and programme management centres of excellence in departments. These new units will become central points for embedding project and programme management best practice across Government.

17 March 2004

GERSHON WELCOMES NEW CHIEF EXECUTIVE OF THE OGC

Sir Peter Gershon has welcomed the appointment of John Oughton as the new Chief Executive of the Office of Government Commerce (OGC) and also welcomed the Chancellor's Budget proposals on efficiency.

Sir Peter said:

"I very much welcome John Oughton's appointment as Chief Executive of the OGC. I have worked with him for the last year, and am confident that he will successfully take forward OGC's challenging programme of modernising procurement in Government. I also support the decision for John to take forward the work on improving efficiency in Government. I look forward to supporting him as a non-executive member of his efficiency implementation group.

The Chancellor today announced ambitious efficiency targets, involving substantial cost savings in the Revenue departments and the Department for Work and Pensions, a cap or reduction in all departmental administration costs, and an overarching target for efficiency improvements across the public sector of 2.5 per cent a year over the three years to 2007-08.

This phased approach has been informed by the initial stage of the efficiency review, which has identified efficiency gains in a number of areas, including in procurement, the corporate back office, and transactional services, as well as potential benefits from more long term reforms to the way government works – for example to the way in which policy is set, funding provided and quality regulated for front line public service delivery organisations.

I consider that the overall efficiency target of 2.5 per cent a year (which would deliver gains of £20 billion by 2007-08) is challenging but achievable. It is important that the drive for efficiency should not put at risk the delivery of public services and a target in excess of 2.5 per cent is likely to present such a risk.

The challenge is now for departments to assist the Government to meet the Chancellor's overarching targets, and to put in place the necessary machinery to implement the resulting efficiency improvements. I look forward to working with John Oughton in helping to ensure this programme is delivered."