5 BUILDING A FAIRER SOCIETY

The Government is determined to ensure that flexibility and fairness are advanced together so that everyone can share in rising national prosperity. Reform of the welfare state, including the launch of the Child and Working Tax Credits and the Pension Credit, is at the heart of the Government's strategy for tackling child poverty, supporting families with children and providing security for all in old age. A modern and fair tax system, which encourages work and saving and ensures that everyone pays their fair share of tax, underpins this programme of reform. Budget 2003 announces further steps to promote fairness with flexibility, including:

- **a new Child Trust Fund** providing every child born from September 2002 with an initial endowment at birth of £250, rising to £500 for children in the poorest third of families, a reform which is progressive and universal and will strengthen the saving habit of future generations;
- **an extra £100 for households with a pensioner aged 80 or over in addition to the £200 winter fuel payment** for the lifetime of this Parliament;
- **extending to 52 weeks the period over which all pensioners in hospital receive their full state pension**;
- **a cross-government review of financial support for 16 to 19 year olds,** including the financial incentives to participate in education or training and the case for extending the National Minimum Wage;
- **a new income tax exemption for foster carers**, to facilitate the recruitment and retention of these carers;
- **measures to protect tax revenues,** including a compliance and enforcement package for direct tax, expected to produce £1.6 billion over the next three years;
- **details of the modernised regime for stamp duty**, announced in Budget 2002, to tackle avoidance and distortions, while protecting small businesses and paving the way for e-conveyancing;
- **further steps to ensure a fair system of alcohol and tobacco taxation;**
- **the abolition of bingo duty, to be replaced by a new gross profits tax on bingo companies**; and
- **further work to establish an International Finance Facility** to secure the additional resources needed to tackle global poverty.

INTRODUCTION

5.1 Since 1997, the Government has placed reform of the welfare state at the heart of its strategy for promoting social inclusion. The new tax and benefit system puts into practice the principles of progressive universalism, with support for all, and more help for those who need it most, when they need it most. Modern, high quality and integrated services, such as Jobcentre Plus and the Pension Service, will offer advice and support tailored to people's circumstances, removing the inflexibilities of the old system.

5.2 Fewer families will suffer from very high marginal deduction rates when they move into work or increase their hours, improving flexibility in the labour market and providing opportunities for people to lift themselves out of poverty. Where appropriate, financial support will be delivered through the tax system to reduce stigma, and there is a particular focus on children and pensioners.

5.3 This chapter describes the Government's reforms to tackle child and pensioner poverty, promote saving throughout life, provide support for people with disabilities, and advance the Millennium Development Goals for reducing global poverty. It also sets out how this ambitious programme of reform is underpinned by wider action to establish a modern and fair tax system which encourages work, saving and investment, raises sufficient revenue to pay for public services, and towards which everyone – individuals and businesses alike – contributes their fair share.

SUPPORT FOR FAMILIES AND CHILDREN

Tackling child poverty

5.4 Every child deserves the best possible start in life, to be supported as they develop and to be given opportunities to achieve their full potential. Children who grow up in poverty experience disadvantage that affects not only their own childhood, but also their experience as adults and the life chances of their own children. Support for today's disadvantaged children will therefore help to ensure a more flexible economy tomorrow.

5.5 The Government's objective is to halve child poverty by 2010 and to eradicate it by 2020. As a first step towards achieving its long-term goal, the Government is committed to a Public Service Agreement (PSA) target for 2004-05, to reduce by one quarter the number of children living in low-income households compared with 1998-99. The Government's strategy for tackling child poverty was set out alongside the 2001 Pre-Budget Report[1]. This strategy involves:

- helping to ensure decent family incomes, with work for those who can and support for those who cannot;
- support for parents, so that they in turn can provide better support for their children;
- delivering high quality public services in all neighbourhoods, with targeted interventions for those with additional needs; and
- harnessing the power and expertise of the voluntary and community sectors, promoting innovation and good practice.

5.6 Between 1998-99 and 2001-02 the numbers of children in low-income households[2] fell by 400,000 after housing costs and by 500,000 before housing costs from 4.2 million and 3.1 million respectively. The Government is therefore around halfway to meeting its 2004-05 PSA target in half of the time. On one measure – before housing costs – it is over halfway, while on the other – after housing costs – it is slightly less than halfway.

5.7 These data show that steady progress has been made in reducing child poverty during a period of high growth in income. In contrast, between 1979 and 1987, median income grew strongly, while the proportion of children in relative low-income households almost doubled. Moreover, these data do not reflect the impact of recent policies, including the Child and Working Tax Credits, paid from this month.

5.8 The Government estimates that, in 2003-04, there will be 1.5 million fewer children living in relative low-income households than there would otherwise have been, had the Government done no more than index 1997 policies to prices. This comprises both the number of children living in households now lifted above the relative income level and the number of children who would otherwise have fallen below that level as median real income and earnings rose, demonstrating the full impact of the Government's policies.

[1] *Tackling child poverty: giving every child the best possible start in life*, HM Treasury, December 2001.

[2] Defined as having an income below 60 per cent of the contemporary median. Data from *Households Below Average Income 1994-95 to 2001-02*, Department for Work and Pensions, March 2003.

5.9 A number of initiatives are underway which will help to achieve the Government's long-term goal of eradicating child poverty. The Department for Work and Pensions (DWP) has recently consulted on a range of options for building on its existing poverty indicators with a measure of child poverty that reflects the complexity of the issues, makes sense to people who experience poverty, allows the public to hold the Government to account and leads to the most effective policy decisions. DWP will publish its initial conclusions shortly. Any change will not relate to the 2004-05 PSA target. As announced in the 2002 Pre-Budget Report, the Government will also publish shortly a Green Paper on children at risk, which will examine how to make mainstream services more preventative and more responsive to the needs of children at risk of a range of adverse outcomes.

5.10 The Government wants to ensure that it tackles child poverty in the most effective way so as to achieve its long-term goals to halve and then eradicate child poverty. It will examine, for Budget 2004 and the next Spending Review, both the welfare reform and public service changes needed to advance faster towards these goals. In pursuing its goals, the Government will continue to work closely with outside organisations.

Financial support for families and children

5.11 The Government is reforming the tax and benefit system to guarantee decent family incomes and tackle child poverty. The reforms ensure that support is available to all families with children and that those who need the most help, including families on lower incomes, receive the greatest support, when they need it most.

Child Benefit

5.12 In April 2003, the rates of Child Benefit were increased in line with prices from £15.75 to £16.05 a week for the first child in every family, and from £10.55 to £10.75 a week for subsequent children. The rate for the first child is now 25 per cent higher in real terms than it was in 1997.

The Child Tax Credit

5.13 As part of the next steps in tax and benefit reform, Budget 2002 introduced two new tax credits for families and those on low incomes. **Paid from this month, the Child and Working Tax Credits provide a new system of support to help families, tackle child poverty and make work pay.** The Working Tax Credit, which makes work pay for low-income households and includes an element to support the costs of eligible childcare, is described in Chapter 4.

5.14 The Child Tax Credit provides a single, seamless system of income-related support for families with children, replacing the child elements of the Working Families' Tax Credit (WFTC), the Disabled Person's Tax Credit (DPTC), Income Support or Jobseeker's Allowance, and the Children's Tax Credit. Building on the foundation of universal Child Benefit, the Child Tax Credit provides:

- a secure stream of income for families with children which does not depend on the employment status of the parents;
- a system in which all support for children is paid direct to the main carer in the family – usually the mother, as in Child Benefit;
- a common framework for assessment, so that all families are part of the same system and poorer families do not suffer any stigma;
- a more responsive system, in which a family's tax credit award can be adjusted to reflect changes in their income and circumstances; and
- a simpler and more streamlined annual renewal process.

5.15 The Child Tax Credit is available to nine out of ten families with children. Additional help is available for some families, including free school meals, free prescriptions and the Sure Start Maternity Grant. This help is linked to the tax credit award, depending on the needs and income of individual families.

5.16 Paid on top of Child Benefit, the Child Tax Credit provides:

- a family element of £545 a year – doubled to £1,090 for families with a child under the age of one – for all families with incomes of less than £50,000, gradually withdrawn for those with incomes above this amount; and
- a child element of £1,445 a year for each child or young person in families with incomes of up to around £13,000 a year, gradually withdrawn for families with higher incomes. Families caring for disabled children receive increased child elements to reflect their greater needs. **From April 2004, the child element will be uprated at least in line with earnings rather than prices for the rest of the Parliament**.

5.17 Table 5.1 shows the levels of support that the Child Tax Credit and Child Benefit provide for families. The precise amount a family receives depends on their income and circumstances, with support reduced as income rises.

Table 5.1: Levels of support for families from April 2003

Family income (£ a year) *Per cent of families*	less than £13,000 *25*	less than £50,000 *85*	all families *100*
1 child	£2,825	£1,375	£830
2 children	£4,830	£1,935	£1,390
3 children	£6,835	£2,495	£1,950

5.18 Around 5¾ million families with children are expected to benefit from the Child Tax Credit. In 2003-04, around 1.3 million families will receive amounts equivalent to the Child Tax Credit through their Income Support or Jobseeker's Allowance, before being transferred automatically onto the Child Tax Credit between April and October 2004. The Inland Revenue has now received over 3.9 million claims. For those who have not yet claimed, claims can be backdated for up to three months, so families will receive their full entitlement provided they claim before 6 July 2003. People can call the tax credits freephone response line – 0800 500 222 – to request a claim pack, or can log on to the tax credits website – www.inlandrevenue.gov.uk/tax credits – which enables families to calculate their entitlement and make a claim online.

5.19 To ensure that families understand the changes and claim what they are entitled to, the Government has:

- issued claim forms to all recipients of existing tax credits;
- launched a £12 million nationwide awareness campaign, involving national television advertising, supported by radio, press and online publicity, and including advertising focused on ethnic minority communities;
- worked with intermediary organisations, such as Citizens Advice, the Child Poverty Action Group and the National Council for One Parent Families, to provide information, training and support to help them communicate with their client groups;

- held a series of tax credit road-shows throughout the country and hosted seminars aimed at particular groups, such as employers and those who work with students or people with disabilities; and
- initiated two four-month pilot projects to communicate information on the new tax credits to those with whom the Government currently has little or no contact. The pilots utilise networks established by voluntary and community groups and are being run by the Inland Revenue with Community Links in the London Borough of Newham and in Keighley, West Yorkshire. Both pilots have generated additional claims.

Box 5.1: Transferring support for children from fathers to mothers

Support for children through tax credits used to be paid through the wage packet to the main earner in the family, often the father. Under the Child Tax Credit, support is now paid into the bank account of the main carer, usually the mother. This means that up to £2 billion will be transferred to mothers, with around 2.5 million fathers losing between £10 and £60 per week, and more in some cases, from their wage packet. ICM research polling in January 2003 supports the decision to pay financial support for children direct to the main carer:

- **65 per cent of people polled believed that all support for children should be paid to the mother, with just one per cent preferring payment to the father;**
- **the majority of men polled – 64 per cent – also believed that all support to children should be paid to the mother;**
- **70 per cent of those polled felt that mothers were most likely to ensure that the money went towards the needs of the children; and**
- **only 2 per cent thought that fathers would be most likely to ensure that financial support was of direct benefit to children.**

Effects of measures to support families with children

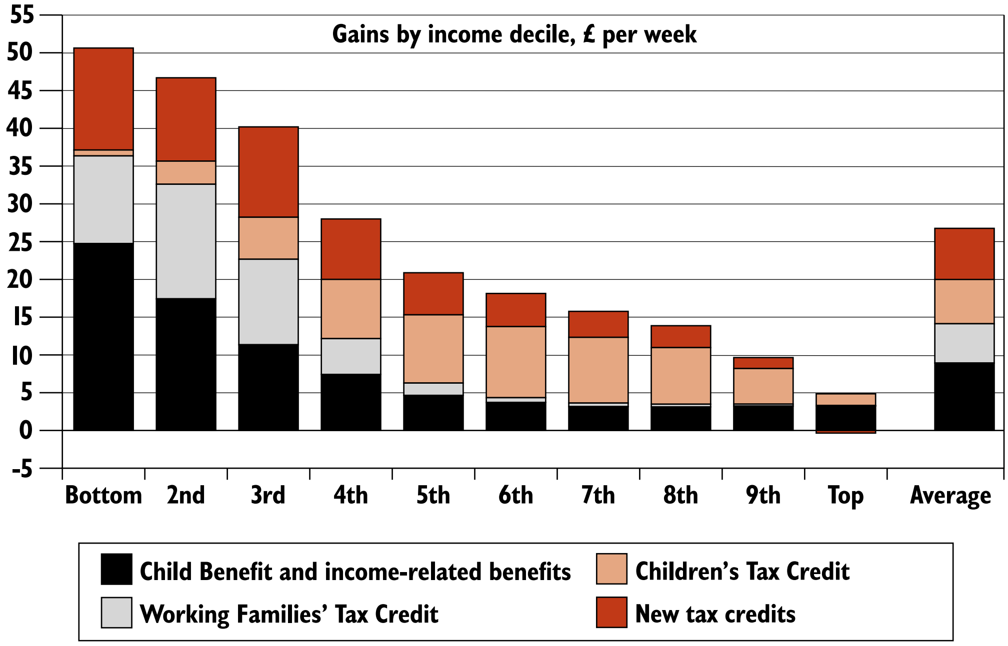
5.20 As a result of the Government's personal tax and benefit reforms since 1997[3] including the changes to national insurance contributions (NICs) and the freezing of the income tax personal allowance announced in Budget 2002, from April 2003:

- families with children are, on average, £1,200 a year better off, while those in the poorest fifth of the population are, on average, £2,500 a year better off in real terms;
- a single-earner family on half average earnings of £14,300 with two young children is £3,430 a year better off in real terms; and
- a single-earner family on average earnings of £28,600 and with two children is £275 a year better off in real terms.

5.21 Chart 5.1 shows the impact by decile, since 1997, of the Government's reforms for families with children.

[3] Compared with the 1997-98 system of taxes and benefits, indexed to 2003-04 prices.

Chart 5.1: Gains for families as a result of children's measures by 2003



The Social Fund **5.22** The Social Fund is an important source of support for people on low incomes. As announced in the 2002 Pre-Budget Report, from April 2003, **£90 million will be added to the budget of the Discretionary Social Fund over the three years to 2005-06 and the maximum payment for the fixed element of the funeral grant rises from £600 to £700**. Combined with administrative improvements, this investment will enhance the Fund's ability to help those on low incomes manage their finances. The Government is considering the case for further reform of the Social Fund.

Support for young adults **5.23** A decent education builds employment opportunity and enhances the well-being of people throughout their lives. In the past, too few people have aspired to continue in learning after the statutory school-leaving age, often because of a lack of financial support. In recognition of these financial barriers, **Education Maintenance Allowances (EMAs) will be introduced across England from September 2004**. EMAs will enable more young people from poorer families to pursue education beyond the age of 16 by providing up to £1,500 a year, depending on household income.

5.24 From 2004, the improved package of financial support for 16 to 19 year olds and their families will enable more young people to remain in full-time education. However, other young people may choose the vocational pathway of training combined with work. **The Government has agreed that the Low Pay Commission should look at the advantages and disadvantages of a minimum wage for 16 and 17 year olds**, but believes that this issue should be considered alongside other financial incentives and support for young people in this age group. **The Government will therefore establish a wider cross-government group to examine the overall system of financial support for 16 to 19 year olds**. The review will report in spring 2004 and will examine:

- the financial incentives for young people to participate in education and training and the interaction between this support and any new minimum wage for 16 and 17 year olds;

- the financial support for young people and their parents or carers, including those who are living independently and those in very low paid employment; and
- how the system of financial incentives and support could be rationalised, given the variety of channels through which it is currently delivered.

Adoption and foster carers

5.25 The Government recognises the important contribution made by parents who foster or adopt children. As announced in the 2002 Pre-Budget Report, payments to adoptive families under the Adoption and Children Act 2002 will continue to be free of tax. These arrangements will benefit all adoptive families who receive financial support to help them meet the extra costs they face when they adopt a child.

5.26 The Government has also considered how the tax system might facilitate the recruitment and retention of foster carers and will introduce, **from April 2003, an income tax exemption for foster carers receiving less than £10,000 a year per residence plus an additional amount per child**. This will ensure that benefits for these carers are applied consistently across the UK, and that they are not unfairly taxed upon the legitimate expenses they incur.

Supporting parents: balancing work and family life

5.27 The Government is determined to advance flexibility and fairness in the labour market together, allowing more men and women to secure the benefits of being able to balance their work and family responsibilities, while ensuring that firms have the flexible working patterns they need to become more productive. The Government's strategy was set out in *Balancing work and family life: enhancing choice and support for parents*, published in January[4]. This involves:

- supporting parents' choices;
- tailoring financial support to families' circumstances;
- enhancing access to good quality childcare and parenting services; and
- working in partnership with business to promote the benefits of flexible working and to support the take up of best practice approaches.

Enhancing choice and support for parents

5.28 A package of measures introduced this month will provide parents with more choice and support than ever before, benefiting employers, employees and their children. By protecting families from fluctuations in income, the new Child and Working Tax Credits make it easier for one parent in a family to remain at home and care for their children if they choose to do so. By improving work incentives for second earners, providing more flexible childcare support, and enabling parents to combine their hours to qualify for enhanced support, the new tax credits also give families more choice about how they structure their work and caring responsibilities.

5.29 The childcare element of the Working Tax Credit responds to changes in the costs of childcare, giving parents greater flexibility to change their childcare arrangements to suit their needs. Parents can also now claim support for the costs of using approved childcare in their own home. At present, only existing registered childminders can become approved home childcarers, but **the Government will consult in the early summer on proposals to widen this to those wishing to become childcare workers and to those already working in the childcare sector**.

[4] *Balancing work and family life: enhancing choice and support for parents*, HM Treasury and the Department of Trade and Industry, January 2003.

5.30 The Government has also introduced new rights this month to help working mothers and fathers meet their work and childcare responsibilities. Parents of young and disabled children can apply for flexible working in the knowledge that their employers have a legal duty to consider their requests seriously. **The flat rate of Statutory Maternity Pay (SMP) is now £100 a week and expectant and new mothers can take 26 weeks Ordinary Maternity Leave and a further 26 weeks unpaid Additional Maternity Leave**, providing up to one year's maternity leave in total. **Adoptive parents now have comparable rights and, for the first time, new fathers also have the right to take two weeks paternity leave, paid at the same flat rate as SMP**.

5.31 These changes build on the success of the Working Families' Tax Credit (WFTC) and the Disabled Person's Tax Credit (DPTC), together with the childcare element of WFTC, which reached over £1 million a day to help working parents. Record amounts are being invested to support new childcare places, and places for over 1.1 million children have been created since 1997, advancing the Government's target to create 1.6 million places by 2004 and 2 million places by 2006. This investment will be supported by a transformation in the way in which services respond to the needs of children and parents, including through new Children's Centres and extended schools.

Further support with childcare

5.32 Budget 2003 announces further measures to support parents:

- from April 2004, **the Government will remove the restrictions in the childcare element of the Working Tax Credit that prevent mothers on paid maternity leave receiving help with the costs of childcare for their new babies**. This will enable parents to settle their new baby into childcare before returning to work; and
- as set out in Chapter 4, **from April 2004, new childcare taster sessions will be introduced for lone parents on the New Deal for lone parents**, allowing them to access formal childcare for up to one week to assess whether it suits their needs.

Working with business

5.33 Employers have an important role in helping employees to balance their work and family lives and can benefit from doing so, including through improved recruitment and retention, staff morale and organisational performance. To support this employer-employee relationship, **Budget 2003 abolishes, from April 2003, the income tax charge that arises where employers contribute to additional household costs incurred by employees working at home**. The Government is also consulting[5] on **proposals to encourage more employers to help their staff meet the costs of safe, good quality childcare**. These proposals include extending the current tax exemption to cover any formal registered childcare contracted for by the employer, a new tax exemption for childcare vouchers, and a rule to ensure that schemes should be generally accessible to all employees. The proposals will extend choice for parents and employers whose needs are not met by workplace nursery schemes.

Next steps

5.34 Although much progress has been made, balancing work and family life remains a key challenge in the twenty-first century. Today, there are more dual-income households, more single parent households and many more women in employment. In recognition of these challenges, the Government's strategy document invited views on possible next steps, once the measures introduced this month have bedded down. The Government would particularly welcome views, by 31 August 2003, on the options set out in Box 5.2, and on which of them should be considered priorities.

5.35 As described in Chapter 6, to prepare the ground for the next Spending Review, the Government will also examine the further steps needed to ensure an adequate supply of good quality childcare, building on the inter-departmental childcare review and the 2002 Spending Review.

[5] *Employer supported childcare: improving the tax and national insurance exemptions*, Inland Revenue and HM Treasury, February 2003.

Box 5.2: Helping parents to balance work and family life

In the light of new measures coming into effect this month, time is needed for the new framework to bed down. Looking further ahead, the Government will monitor the impact of new and existing reforms and will also consider:

- **how well support for childcare costs within the tax credit system is working, including the effect of increased flexibility on parents' ability to adjust their childcare arrangements to suit their needs;**
- **the case for counting unpaid maternity leave as being 'in work' for the purposes of tax credits, to enable families to continue receiving support during this period;**
- **allowing parents to use their full parental leave as one block at the end of maternity, paternity or adoption leave;**
- **whether to allow fathers time off to attend ante-natal care;**
- **whether to extend the period of paid paternity leave and/or to introduce unpaid paternity leave;**
- **the case for extending paid paternity leave in case of multiple births and disabled children; and**
- **the impact of the maternity, paternity and adoption leave provisions. The Government is already committed to reviewing, in three years' time, the employers' duty to consider requests for flexible working.**

Public services to tackle child poverty

5.36 The 2002 Spending Review provided substantial new investment for child-focused public services, including an extra £14.7 billion a year for education by 2005-06, £570 million over three years to support the roll-out and operation of Children's Fund partnerships, and increased resources to help tackle health inequalities and establish better preventative healthcare services. All children will benefit from this additional support, while targeted interventions will ensure that those most in need receive the greatest help. Children living in deprived neighbourhoods will also benefit from a strengthened set of deprivation-related PSA floor targets, setting out how outcomes for those living in the poorest areas should improve.

Children at risk

5.37 As part of the 2002 Spending Review, the Government conducted a cross-cutting review into the delivery of programmes and services to help children at risk of poor outcomes in areas such as health, education and employment. The review examined best practice in local partnership delivery of integrated children's services and identified a number of barriers to improved coordination.

5.38 Building on the analysis set out in the review, as mentioned earlier in this chapter, **the Government will publish shortly a Green Paper on services for children and young people at risk**. The Green Paper will examine how to increase the preventative nature of mainstream services and make them more responsive to the needs of children at risk of a range of adverse outcomes, including educational under-achievement; poor physical, mental or sexual health; victimisation, bullying and abuse; and offending. It will also look at the provision of specialist services. The focus will be on ensuring that investment in services for children is matched by reform, and that reform is organised around the needs of children and young people.

FAIRNESS FOR PEOPLE WITH DISABILITIES

5.39 The Government is determined to increase opportunities for people with disabilities to lead independent and fulfilling lives. The recent Green Paper, *Pathways to work: helping people into employment*, set out how the Government intends to use the resources allocated in the 2002 Spending Review to trial earlier and more intensive employment support for disabled people who are able to work, building on the assistance available through the New Deal for disabled people. The Working Tax Credit also includes an element of support for people with disabilities, in recognition of the additional costs they face when in work. These measures are described in Chapter 4.

5.40 People with disabilities who are unable to work should have financial security and support. The Disability Income Guarantee ensures that severely disabled people under 60 years of age and on income-related benefits receive a guaranteed minimum income of at least £144.45 a week for single people, and £189.95 a week for couples. In recognition of the fact that families with disabled children often need extra help, **the disabled child premium or disability element was also increased in April 2003 to more than £40 a week on top of basic Income Support or tax credits**, benefiting around 88,000 children.

Tackling discrimination and exclusion

5.41 Fairness for disabled people requires an end to discrimination in the workplace and beyond. The Government is committed to extending rights and opportunities for disabled people and will publish shortly a draft Disability Bill with the intention that it should undergo pre-legislative scrutiny before being taken forward as part of the Government's legislative programme later in this Parliament. The draft Bill will include new measures proposed by the Disability Rights Task Force, including changes to the Disability Discrimination Act (DDA) affecting the public sector, transport and premises, and an extended definition of disability. The Government also intends to cover membership of larger private clubs in the DDA, and will consult widely on how and when the practical changes involved should take effect.

FAIRNESS FOR PENSIONERS

5.42 A fair society guarantees security in old age. The Government is committed to tackling pensioner poverty so that all pensioners can share in rising national prosperity. This means ensuring security for all pensioners, with extra help for those who need it most and reward for those who have saved modest amounts. It also means helping today's workers to plan more effectively for a secure retirement, through the range of proposals set out in the Government's Pensions Green Paper[6] and consultation on simplifying the taxation of pensions[7]. The Government provides a foundation of support for retirement income. Above this, individuals, where possible supported by their employers, are responsible for determining the level of income on which they wish to retire, and for planning their saving and working patterns accordingly.

[6] *Simplicity, security and choice: working and saving for retirement*, the Department for Work and Pensions, HM Treasury and Inland Revenue, December 2002.

[7] *Simplifying the taxation of pensions: increasing choice and flexibility for all*, HM Treasury and Inland Revenue, December 2002.

Security for all pensioners

5.43 To ensure that today's pensioners have security in retirement, the Government has:

- increased the basic state pension by more than inflation in each of the last two years. **In April 2003, the full basic state pension was increased further to £77.45 a week for single pensioners and to £123.80 a week for pensioner couples** – an annual increase of more than £100 for single pensioners and more than £160 for couples;
- **guaranteed that the basic state pension will rise in future years by 2.5 per cent or the increase in the September Retail Prices Index, whichever is higher;**
- introduced winter fuel payments, worth £200 per household each year for people aged 60 or over for the remainder of this Parliament. In addition, **Budget 2003 announces an additional £100 for households with a pensioner aged 80 or over, on top of the £200 winter fuel payment** for the lifetime of this Parliament; and
- introduced free TV licences for households containing someone aged 75 or over and free eye tests for all those over 60.

Tackling pensioner poverty

5.44 The Government has also taken steps to help those pensioners in greatest need. Reforms to Income Support for pensioners with a more generous Minimum Income Guarantee (MIG) now benefit over two million pensioners. Since its introduction, the level of the MIG has been increased at least in line with earnings so that, from April 2003, no single pensioner need live on less than £102.10 a week and no pensioner couple on less than £155.80 a week. As a result, the proportion of pensioners living in low-income households, measured after housing costs, is now at its lowest level since the mid-1980s[8].

Help for those in hospital

5.45 Since the introduction of the welfare state, hospital inpatients have had their benefits reduced after a certain length of stay. This can lead to financial insecurity and distress, particularly among pensioners who currently have their State Retirement Pension reduced after just six weeks. The problems are exacerbated by complexity in the current rules, and delays in notifying the Government of time spent in hospital can often result in benefit and pension entitlements being adjusted in the months after a patient returns home.

5.46 To provide greater financial security and reduce anxiety for those who experience longer stays in hospital, **all pensioners in hospital will in future receive their full state pension for stays of up to 52 weeks**. The change will be introduced as soon as possible and will apply to pensioners and to those of working age entering hospital. Those already in hospital for less than 52 weeks will have their benefits increased from the date of change.

[8] Defined as having an income below 60 per cent of contemporary median.

The Pension Credit: rewarding low and modest-income pensioners

5.47 To advance its goal of tackling pensioner poverty and to reward saving for retirement, **the Government is introducing the Pension Credit from October 2003**. Around half of all pensioner households stand to gain an additional £400 a year on average under the Pension Credit, with some gaining up to £1,000 a year. As a result of the MIG and the introduction of the Pension Credit, the poorest third of pensioners will be about £600 a year better off on average than had the equivalent amount been spent on raising the basic state pension.

5.48 Delivered by the new Pension Service, the Pension Credit will replace the MIG, bringing pensioners' incomes up to a guaranteed minimum entitlement. The minimum entitlement will be linked to the growth in average earnings throughout this Parliament, ensuring that more pensioners are able to share in rising national prosperity.

5.49 The Pension Credit will also ensure that millions of pensioners who have saved modest amounts for their retirement gain from having done so. From the of age 65, single pensioners with incomes of up to £139 a week will be rewarded with up to £14.79 a week. Pensioner couples with incomes of nearly £204 a week will see rewards of up to £19.20 a week. The current MIG capital regime will be revised and the MIG's weekly means test abolished for the vast majority of pensioners. For those aged 65 and over, adjustments to awards will be made only when circumstances change significantly, although recipients will be able to request a reassessment should their circumstances mean that they are entitled to an increase. People on Housing Benefit or Council Tax Benefit will be protected to ensure that they receive the full benefit of the Pension Credit.

Box 5.3: Pension Credit: "pick it up, it's yours"

Around half of all pensioner households will be entitled to the Pension Credit following its introduction from 6 October 2003. The Government is determined that at least three million households should receive the Credit by 2006 – the first time a Government target has been set for the take-up of an entitlement.

The Government, through the new Pension Service, is taking important steps to raise awareness of the Pension Credit and ensure that pensioner households understand what they are entitled to. Advance applications for the Pension Credit have been taken since 7 April 2003, and all applications received before October 2004 will be backdated to the start of the Pension Credit where eligible. The Government is pursuing a comprehensive strategy to maximise take-up, including:

- **the distribution of personal direct mail packs to every pensioner household, tailored to the individual circumstances of each household;**
- **MIG customers have been written to, advising them that they will automatically receive their Pension Credit entitlement from October 2003;**
- **widespread and high-profile advertising campaigns will run from late summer 2003 to raise general awareness of the Pension Credit among pensioners, their friends and their families; and**
- **the Pension Service will work with local pensioner groups to provide the information and support necessary to promote take up in their communities, and particularly among harder-to-reach groups.**

Effects of measures to support pensioners

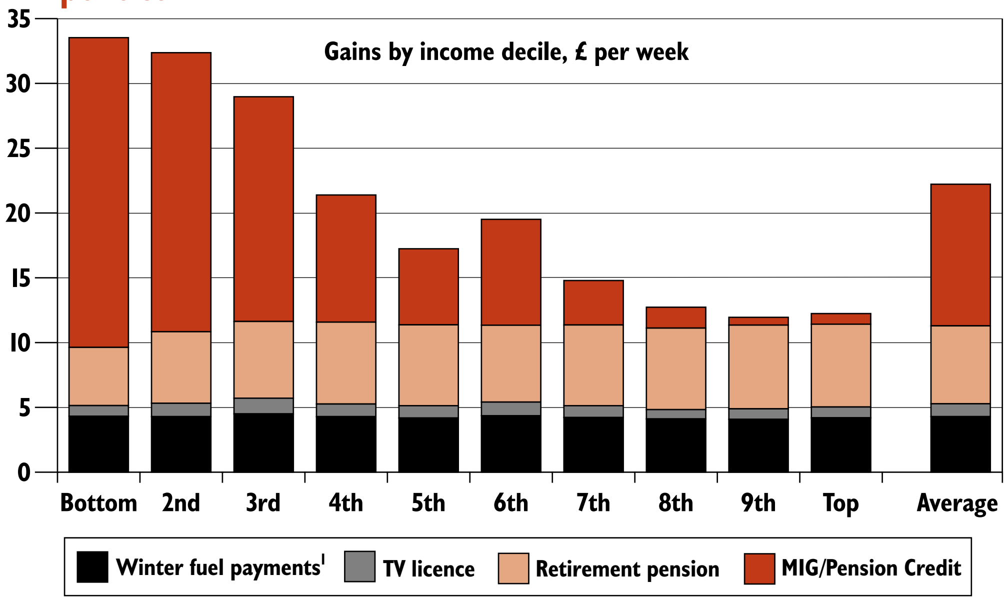
5.50 From 2004-05, following the introduction of the Pension Credit, the Government will be spending around £9.2 billion more in real terms on pensioners as a result of measures introduced since 1997. It is £5.7 billion more than the cost of indexing the basic state pension to earnings.

5.51 Compared with the 1997 system[9], as a result of the Government's measures including the Pension Credit, on average, from October 2003:

- pensioner households will be £1,250 a year better off in real terms – around £24 extra a week; and
- the poorest third of pensioner households will have gained £1,600 a year in real terms.

5.52 Chart 5.2 shows the distributional impact, in current prices, of the Government's measures to support pensioners introduced before April 2004, including the Pension Credit.

Chart 5.2: Overall gains for pensioner families from pensioner policies



[1] Includes additional payment of £100 to households with someone aged 80 or over.
Source: Department for Work and Pensions

Support for pensioners who pay tax

5.53 While most pensioners have no income tax to pay, for those who do, **the age-related personal allowances in 2003-04 rise to £6,610 for people aged between 65 and 74 and to £6,720 for those aged 75 or over**. This represents an increase of £400 and £240 a year respectively over the amount that would have resulted from statutory indexation, and will ensure that no pensioner aged 65 or over pays tax on income of less than £127 a week. The age-related personal allowances will be raised at least in line with earnings rather than prices for the remainder of this Parliament.

[9] Compared with the 1997-98 system of taxes and benefits, indexed to 2003-04 prices.

Supporting tomorrow's pensioners

The Pensions Green Paper

5.54 Building on the foundation of the Government's reforms to state provision, including increases in the basic state pension, the introduction of the State Second Pension, the Minimum Income Guarantee, and, from October 2003, the Pension Credit, the Green Paper set out a range of proposals to enable those of working age to plan more effectively for a secure retirement. The proposals seek to renew the partnership between the Government, individuals, employers and the financial services industry, which has long been a strength of the UK pensions system, by:

- helping people to make better informed choices about their retirement, including through the extension of pensions forecasts which provide information tailored to individual circumstances;
- reaffirming the role and responsibilities of employers in the pensions partnership, improving saving throughout the workplace through major regulatory simplification and increased member protection;
- encouraging the development of simple and flexible savings products and improving access to financial help through generic healthcheck products and workplace advice; and
- facilitating extended working lives, eroding the cliff edge between work and retirement by enabling flexible retirement and offering fair increases for deferring state pensions.

5.55 The Government has consulted widely on the proposals set out in the Green Paper, organising a series of seminars and events to discuss the issues with key stakeholders. Around 750 organisations and individuals, including members of the public, submitted responses which the Government will now consider. The Government has also established a new Pensions Commission to examine the regime for UK private pensions and long-term savings and to assess the effectiveness of the voluntarist approach. The Commission expects to publish its work programme shortly.

Simplifying the taxation of pensions

5.56 The Government has also published proposals for radical simplification of the taxation of pensions. The proposals sweep away the complexity of the current system, replacing the existing eight different tax regimes for pensions with a single lifetime limit on the amount of pension saving that can benefit from tax relief.

5.57 In the past, people with occupational pensions have been subject to absolute limits on their annual pension savings based on their earnings, which have been subject to a cap since 1989. The proposed lifetime limit is broadly equivalent to the maximum pension that individuals earning at or above the level of the current earnings cap – £99,000 – could have built up under these limits, and 99 per cent of people will be able to save more under the new rules. As stated in the consultation document, *Simplifying the taxation of pensions*, the small minority in uncapped regimes that have managed to accumulate a pension entitlement worth more than the lifetime limit – around 5,000 people – will have their existing rights guaranteed.

5.58 All pension savers will benefit from greater clarity and transparency about the amount of tax-favoured savings they can make, more choice over when and how they retire and how they draw benefits from their pension, and, in many cases, a larger tax-free lump sum. Simplification will also reduce administrative burdens for employers and pension providers, lowering costs and delivering better value for all savers. Initial estimates put these cost savings at £80 million a year.

5.59 The proposals have been well received, including at a number of consultation events. **The consultation period ends on 11 April and the Government intends to publish its plans for legislation in the summer.**

PROMOTING SAVING AND ASSET OWNERSHIP

5.60 Savings and assets provide people with security in times of adversity, long-term independence and opportunity and comfort in retirement. The Government's strategy for promoting saving and asset accumulation focuses on:

- improving the environment for saving, with macroeconomic stability and an efficient and well-regulated market in financial services;
- creating the right incentives for saving by ensuring that the tax and benefit system does not unfairly penalise savers and by assisting those on lower incomes;
- empowering individuals with financial information, improved access to advice, and simpler and easier to understand savings products; and
- developing savings products suitable for each stage in a person's life cycle. As the scale of saving increases, proceeds from one product may be rolled into the next, helping people to progress up the savings ladder.

The Child Trust Fund

5.61 The Government is committed to strengthening the saving habit of future generations and ensuring that all children have a stake in the wealth of the nation. **Budget 2003 therefore introduces a new Child Trust Fund (CTF), with entitlement backdated to include children born from September 2002 to align payments with the school year.** The CTF will provide an endowment for every child at birth, with those from the poorest families receiving the largest amounts.

5.62 Following extensive consultation, the key features of the Child Trust Fund announced in Budget 2003 are:

- an initial Government endowment of £250. This will rise to £500 for children from low-income families who also qualify for the full Child Tax Credit – around one third of all children;
- additional contributions can be made by parents, other family members or friends up to an annual limit of £1,000;
- access to assets in the fund, including any additional contributions, will be permissible only upon account maturity at the age of eighteen. There will be no restriction on the use of assets at maturity, at which point funds could be rolled over into other savings products; and
- provision of CTF accounts, expected to be available by 2005, will be by open market competition – any authorised provider will be able to enter the market, subject to meeting the conditions of the CTF.

5.63 This structure will provide the foundation on which the Government will build in future Budgets and Spending Reviews. **The Government will publish its full proposals for the Child Trust Fund in summer 2003** including product specifications, sales regulation, limits on investment risk, the default investment option and the extent of any incentives for contributions into the CTF. This will ensure that providers and other stakeholders have the opportunity to comment on the detailed implementation plans.

The Saving Gateway

5.64 The Saving Gateway is designed to be an ideal starting point for many younger or low-income individuals who would otherwise have difficulty starting on the savings ladder. The Saving Gateway would encourage saving by means of a Government-funded match of all money saved, up to a limit. Tailored financial information and education is provided alongside Saving Gateway accounts to help individuals make informed saving choices. The account would also provide an effective bridge to other forms of saving, such as Individual Savings Accounts (ISAs).

5.65 The Government is currently piloting the Saving Gateway in Cambridgeshire, Cumbria, Gorton, Hull and Tower Hamlets, in conjunction with the Community Finance and Learning Initiative, led by the Department for Education and Skills. As of 31 March 2003, around 700 pilot accounts had been opened at the five nominated Halifax branches, with total contributions of nearly £38,000. The pilots, which end in February 2005, have been designed to provide a regular stream of information and will be evaluated to assess their impact on saving behaviour. Further development of the Saving Gateway, including the appropriate level of the match rate and the criteria to be used to determine eligibility, will follow in light of evaluation evidence.

Individual Savings Accounts

5.66 Individual Savings Accounts (ISAs) are the Government's primary vehicle for tax-advantaged saving outside pensions. They have helped to make saving, and the benefits of saving, simple for ordinary investors to understand. Over 14 million people – around one in four adults – now have an ISA and over £105 billion has been subscribed to ISAs since their launch in 1999.

The Sandler review of retail savings

5.67 In June 2001, the Government appointed Ron Sandler, former CEO of Lloyd's of London, to conduct a review of the medium- and long-term savings industry. The review reported in July 2002 and made six major recommendations aimed at improving competitive intensity in the retail savings market, including through the development of a suite of simple, low cost and risk-controlled 'stakeholder' investment products aimed at low- and medium-income investors and sold through a simplified sales regime. The Treasury is currently consulting[10] on the design of these products, and has commissioned independent research into how best to cap product charges. The Financial Services Authority (FSA) is also consulting[11] on the sales regime for any future 'stakeholder' products and on the separate Sandler recommendation relating to the reform of with-profits policies.

5.68 In the 2002 Pre-Budget Report the Government announced that it would consider further Sandler's proposals relating to the taxation of life insurance policies. The Government welcomes Sandler's emphasis on minimising tax-generated distortions and agrees with his stress on the desirability of a more level tax playing field in this area. At the same time, industry representatives have argued that the Government should look at Sandler's tax proposals in the wider context of other tax issues affecting the market for life insurance and other pooled investment products such as unit trusts. The Government agrees, and will consider these recommendations further within a wider framework that takes account of ongoing regulatory change and other developments such as corporation tax reform.

[10] *Proposed product specifications for Sandler 'stakeholder' products*, HM Treasury and the Department for Work and Pensions, February 2003.

[11] *Options for regulating the sale of simplified products (Discussion paper 19)*, Financial Services Authority, January 2003.

SUPPORTING VOLUNTARY AND COMMUNITY ACTIVITY

5.69 Voluntary and community activity plays a valuable role in building strong communities, fostering socially responsible businesses, and delivering high quality public services in partnership with government.

5.70 The Government has demonstrated its commitment to the voluntary and community sector since 1997. Following last year's cross-cutting review, £93 million has been allocated to implement a new framework for service delivery between the Government and the voluntary and community sector. As described in Chapter 6, the Government is also investing £125 million over three years in a new *future*builders fund to assist voluntary and community sector organisations in their public service delivery work, £25 million over three years in a new Parenting Fund, and further developing the Community Interest Company model to complement government services at the community level.

5.71 Fiscal incentives to promote giving are also now in place, and tax reliefs are currently worth around £2 billion a year to charities. To strengthen these incentives, **from April 2004, self-assessment taxpayers will be able to direct tax repayments to nominated charities**. The Government has also allocated £3 million to establish *Guidestar* – a comprehensive new information base designed to boost charitable giving by improving access to information about charities and their activities.

5.72 The December 2002 discussion document, *Next steps on volunteering and giving in the UK*[12], set out the Government's plans to consolidate support for the sector in the coming years, and to ensure this support is reflected across society.

Corporate Challenge

5.73 The Government appreciates the value of corporate community involvement and is currently consulting on proposals for a new Corporate Challenge designed to increase corporate involvement in charitable and voluntary activity. The Challenge will seek to increase the numbers of employees engaged in volunteering activity and in Payroll Giving, by facilitating and encouraging corporate provision and promotion of these opportunities. The Challenge will be launched later in the year.

Young Volunteer Challenge

5.74 The Government is also committed to supporting volunteering in communities across the UK, and recognises that people benefit from opportunities to volunteer from a young age. **From May 2003, a new Young Volunteer Challenge scheme will be piloted to encourage young people from lower income backgrounds to volunteer in community projects.** This innovative scheme will work initially with 1,200 young people in ten urban and rural areas across the UK as they take a gap between school, college or training and further learning.

Sports clubs

5.75 Sport at grassroots level has an important role to play in promoting the health and cohesion of local communities. The Government has already committed £20 million a year to stimulate the creation of a national network of community amateur sports clubs. It now looks to the sector to provide stronger analysis and evaluation of the impact of existing support to help to inform any future decisions in this area.

Museums

5.76 The Government is also committed to improving access to items of cultural and historical significance. Budget 2001 introduced a new scheme to refund national museums and galleries the VAT they incur on purchases when they allow free admissions to the public. The Government will now review the options available for improving support to regional and national museums to enable them to acquire and make works of art and culture accessible to all.

[12] *Next steps on volunteering and giving in the UK*, HM Treasury and the Home Office, December 2002.

DELIVERING A MODERN AND FAIR TAX SYSTEM

5.77 A modern and fair tax system encourages work and saving, keeps pace with developments in business practice and the global economy and raises sufficient revenue to fund the Government's objective to build world-class public services. To ensure that the burden of tax does not fall unfairly on compliant taxpayers, loopholes giving scope for unfairness and economic distortion must be closed. Taxpayers who contribute their fair share have a right to expect that others will do so as well, and that the Government will take action against those who abuse the system, ensuring a level playing field for compliant taxpayers.

Protecting tax revenues

Direct tax compliance

5.78 To promote fairness in the tax system, **Budget 2003 launches a new compliance and enforcement package for direct tax and NICs**. Additional Inland Revenue staff, backed up by new IT and specialist expertise, will be deployed in three areas where significant risks to revenue have been identified:

- protecting the Exchequer from non-payment of tax and NICs debts and from failure to file tax returns;
- tackling fraud involving concealment of undeclared income or profits offshore; and
- countering avoidance of corporation tax and of NICs and tax on employment income.

5.79 An additional £66 million is being provided to the Inland Revenue over the next three years to support implementation of the package. The package is expected to produce at least an additional £1.6 billion in revenue over the next three years, but in line with the Government's cautious approach to the public finances a lower figure of under £1.4 billion over three years, with the annual figure rising to just over £0.6 billion in 2005-06, has been included in the forecast. The Comptroller and Auditor General has audited the projections and concluded that they are based on a reasonable approach and incorporate caution.

5.80 The package is the first step in a new Inland Revenue compliance strategy. This will cover all compliance activities, from supporting those who want to meet their obligations to taking action against those who do not. The aim is to ensure that a strategic approach is taken to the analysis of risks to revenue, to the deployment of resources, and to monitoring the outcomes of compliance work.

Protecting direct tax revenues

5.81 The compliance package also complements and reinforces ongoing Government work to protect direct tax revenues. In addition to the new package, **Budget 2003 takes further action to tackle instances of direct tax avoidance and reduce burdens on compliant taxpayers**. Chapter A of the Financial Statement and Budget Report gives details of the full range of measures, which will protect around £250 million per annum in future years, and include:

- action to prevent tax and NICs avoidance through the payment of share-based remuneration;
- action to close loopholes in the chargeable gains regime for second-hand life policies and to prevent avoidance of capital gains tax through complex transactions using offshore trusts;
- new measures to close loopholes in the loan relationships and derivative contracts regimes;

- reforms to tackle avoidance through sale and repurchase agreements; and
- action to counter tax avoidance using relevant discounted securities and to prevent exploitation of the 100 per cent information and communications technology allowances for small firms, as previously announced.

5.82 In order to ensure that tax revenues are protected, the Government also needs to be ready to respond to emerging developments, particularly in fast-moving financial markets. Financial market and regulatory changes are leading to the development of debt instruments economically equivalent to equity, which create particular challenges for the tax system. The Government will continue to monitor developments closely and, if appropriate, consider with the industry what changes might be necessary to the tax treatment of such instruments.

5.83 The Government is also determined to protect the corporation tax system against legal challenges under European law, particularly where these challenges have the potential to undermine international agreements. The continuing consultation on corporation tax reform, described in Chapter 3, will provide an opportunity for the Government to discuss with business legislative options to ensure that the UK regime remains robust.

Tackling indirect tax losses

5.84 The Government's work to protect direct tax revenues complements that aimed at tackling losses in the indirect tax regimes. *Protecting indirect tax revenues*[13], published alongside the 2002 Pre-Budget Report, reported on the progress the Government had made to stop the growth in tobacco smuggling and to reduce revenue lost through cross-Channel passenger smuggling of alcohol and tobacco by more than 80 per cent. **To consolidate and improve further these results, HM Customs and Excise will consult in the spring on regulatory measures to reduce opportunities for alcohol fraud.**

VAT fraud and avoidance

5.85 The Government is applying its approach to tackling tobacco and other excise fraud to countering fraud, avoidance and non-compliance in the VAT system. The Government's strategy was described in detail in *Protecting indirect tax revenues* and is designed to produce more than £2 billion in additional revenues by 2005-06. In support of this strategy, **Budget 2003 introduces further targeted measures to reduce instances of VAT fraud and avoidance**, including:

- a new provision for joint and several liability for VAT due from missing traders, with safeguards to protect those innocently involved;
- extended powers for HM Customs and Excise to require security from businesses that consistently trade in supply chains involving missing traders or those who become insolvent leaving VAT unpaid;
- a provision to deny input tax recovery to traders that do not hold a valid tax invoice and cannot provide further evidence to support the bona fide nature of a transaction, where supplies are subject to widespread fraud;
- immediate legislation to prevent avoidance in relation to the private and non-business use of land and buildings; and
- in the light of consultation, action to ensure that VAT is accounted for where appropriate on the sale of face value vouchers and at least once a year on certain ongoing supplies between connected businesses.

[13] *Protecting indirect tax revenues*, HM Customs and Excise, November 2002.

Modernising and simplifying the tax system

Stamp duty

5.86 Budget 2002 announced a major reform of stamp duty on UK land and buildings to close loopholes and remove distortions in the system and to modernise administration and enforcement. Following consultation, **Budget 2003 sets out further details of the modernised stamp duty regime which will be introduced from December 2003**.

5.87 The modernised regime will generate a more streamlined process for ordinary homebuyers, paving the way for the development of e-conveyancing. It will also introduce fairer treatment for purchases funded by certain types of financing arrangement.

5.88 The main focus of the reform affects commercial property. In Budget 2002, the Government signalled its commitment to ensure that the charge applies fairly to all relevant transactions in UK land and buildings. The existing regime allows many transactions to take place without incurring a stamp duty charge, placing an additional burden on other taxpayers. The Government is also concerned that commercial decision making is being distorted by widespread tax planning, giving rise to complex and artificial arrangements to transfer the rights to property.

5.89 As a response to widespread avoidance, the reform includes comprehensive powers that are proportional to the scale of the problem. These encompass effective enforcement and compliance powers, commensurate with those that already exist for other taxes; comprehensive measures to target stamp duty-free transfer of property through the use of corporate vehicles; and the power to make in-year changes to counter any further avoidance.

5.90 As an element of stamp duty reform, the Government has also consulted on modernisation of the charge applying to new leases, addressing tax distortions between purchasing and leasing and in the structure of leasehold contracts. **The Government believes that the existing charge, which varies according to the length of the lease, should be replaced with a single one per cent charge on the total net present value of rental payments. The Government also proposes to lift 60 per cent of commercial leasehold contracts out of the charge altogether, through a new exempt threshold of £150,000.** The Government will move ahead with reform along these lines, for introduction alongside the modernised charge from December 2003, unless further consultation with business demonstrates that the Government's objective of securing a fair amount of tax from lease contracts can be better met by an alternative approach.

5.91 In securing the right amount of tax, the Government has also sought to protect small businesses, and where possible to reduce the burden on them. **Budget 2003 therefore increases the exempt threshold for commercial property to £150,000 from December,** lifting many small business purchases out of stamp duty altogether. This builds on the exemptions in Enterprise Areas described in Chapter 3 and will ensure that the modernised tax is better targeted at those who can best afford to pay. The stamp duty reforms also involve significant deregulation, by taking non-land transactions, except shares, out of stamp duty altogether.

5.92 Given the scale of this reform, the Government intends to continue consulting up to and beyond implementation. In particular, there will be further consultation on new arrangements to ensure that the charge is levied fairly on complex commercial developments and financing transactions, and on property held through partnerships. In examining the need for future changes, and as a result of improvements to the administration of stamp duty and data collection, the Government will be able to differentiate between the commercial and residential markets, in order to take into account significant differences in the economic circumstances of the two sectors and the need to ensure fairness between taxpayers.

Residence and domicile

5.93 The 2002 Pre-Budget Report gave further details of the Government's review of the residence and domicile rules. **The Government is today publishing a background paper, *Reviewing the residence and domicile rules as they affect the taxation of individuals*, which takes forward continuing work in this area**. The paper describes the current rules and their historical perspective, analyses international experience, and develops the principles that the Government believes should underpin any modernisation of the system. The paper will provide a framework for further analysis and discussion and ensure that any specific options for reform of the current rules are based on the widest possible understanding of their effect.

Tobacco duties

5.94 Smoking is the single greatest cause of preventable illness and premature death in the UK, killing 120,000 people every year. Research has consistently shown that the demand for cigarettes is affected by their price, and that high tax levels can play an important role in reducing overall tobacco consumption. Maintaining the real price of tobacco helps to encourage existing smokers to smoke less or quit, and to discourage young people from taking up the habit. **Tobacco duty will therefore be increased in line with inflation from Budget day**.

Alcohol duties

5.95 The Government is committed to delivering a fairer balance in the burden of taxation falling on different alcoholic drinks and different types of drink producer. To increase fairness in the alcohol duty regime:

- **the duty on spirits will be frozen for the sixth Budget in a row** – the longest freeze since the 1950s and equivalent to a cut in the tax on a standard bottle of 92 pence in real terms since 1997;
- **the duty on beer and wine will be increased in line with inflation**, adding one penny to a pint of beer and four pence to a standard 75 cl bottle of wine, maintaining revenue; and
- **the duties on cider and sparkling wine will be frozen**.

Gambling taxation

5.96 In recent years, the Government has modernised the structure of gambling taxation, the design of which had remained largely unchanged since the 1960s. Reforms to general betting duty and to pools betting duty have reduced administrative complexity, improved efficiency and helped the UK gambling industry to compete more effectively in an increasingly global marketplace. Evaluation of the new tax on bookmakers' gross profits confirms the success of the Government's reforms, which have contributed to strong growth in the industry, lower prices for consumers, and the creation of more than 2,000 new jobs. A full evaluation report will be published later in the spring.

5.97 As announced in Budget 2002, the Government has also consulted on the scope for replacing bingo duty with a tax on bingo companies' gross profits. In the light of consultation, **Budget 2003 abolishes bingo duty and replaces it with a 15 per cent tax on the gross profits of bingo companies**. This will benefit players, through higher prizes or lower prices, and bingo clubs, by promoting increased participation in bingo. The tax will be introduced from 4 August 2003.

5.98 As the next stage in the modernisation of gambling taxation, **the Government will consult shortly on the scope for reform of Amusement Machine Licence Duty** (AMLD). As with previous reforms, the Government aims to ensure that AMLD is fair and efficient and makes a sustainable contribution to government revenues while supporting the competitiveness of the industry. The Government also intends to ensure that reform of gambling taxes moves forward in concert with potential changes to the regulatory regime for gambling following the White Paper, *A safe bet for success*.[14]

TACKLING GLOBAL POVERTY

5.99 The Government is at the forefront of international efforts to reduce global poverty and achieve the Millennium Development Goals (MDGs) – shared international commitments to halve the proportion of people living in extreme poverty, reduce child and maternal mortality, achieve universal primary education, and reverse the spread of HIV/AIDS, malaria and other killer diseases by 2015.

5.100 Meeting these goals requires a significant increase in resources for development and further improvements in aid effectiveness. Best available estimates suggest that an extra $50 billion a year of development assistance is needed to meet the MDGs by 2015, and the Government has proposed an International Finance Facility, described in Box 5.4, to raise the resources required. The Government believes that meeting these ambitious targets require a new Marshall plan for the global economy with all countries meeting their shared obligations. This involves:

- an improvement in the terms on which the poorest countries participate in the global economy, with all countries pursuing agreed codes and standards of fiscal and monetary policy transparency;
- the adoption of high corporate standards by the international business community for engagement as reliable partners in the development process, and the creation in developing countries of the right domestic conditions for business investment;
- the sequenced adoption of an improved regime for trade that allows developing countries to benefit from and participate on fair terms in the world economy; and
- further improvements in aid effectiveness and a substantial increase in global aid flows through an International Finance Facility.

5.101 At their meeting in February 2003, G7 Finance Ministers affirmed their duty and responsibility for the prosperity and sustainable development of the world and pledged to address rigorously the challenge of global poverty. This includes a continued focus on financing the MDGs with a view to making further progress by the G8 Heads of State Summit in June 2003. The Government strongly supports this commitment and is determined to play a leading role in the development of further international efforts to meet the MDGs by 2015.

[14] *A safe bet for success*, Department for Culture, Media and Sport, March 2002.

Box 5.4: International Finance Facility

The international community is in danger of failing to achieve its shared objective to achieve the Millennium Development Goals. Despite recent progress, on current trends around 100 million children - 80 million in Africa alone - will still be denied schooling in 2015 and 47 out of 48 sub-Saharan countries will fail to meet targets for reduced maternal mortality. Half of the world's population still lives on less than two dollars a day.

Last year, the international community signed up to the first increase in official development aid for 20 years - an additional $12 billion a year by 2006. Nonetheless, the World Bank and the United Nations estimate that an additional $50 billion in aid from the international community is needed each year if the MDGs are to be met. This reality imposes a pressing need on the international community to deliver additional finance for development and further improvements in the effectiveness of aid, so that no country genuinely committed to poverty reduction and to meeting the MDGs should be denied the chance of achieving its goals through lack of resources.

To raise the additional finance needed to address the injustice of global poverty, the Chancellor and the Secretary of State for International Development have proposed the creation of a new International Finance Facility (IFF). The founding principle of the IFF is that, in return for action by developing countries to tackle corruption and establish stable conditions for equitable and sustainable economic growth, developed countries will increase aid from $50 billion a year today to $100 billion a year up to 2015.

The Facility would deliver this significant increase in resources by locking in long-term commitments to increased aid flows by donor countries. On the basis of these commitments, the Facility would secure additional finance from international capital markets, frontloading long-term aid flows for more immediate disbursement to ensure maximum impact towards meeting the MDGs. Additional resources would be disbursed mainly in the form of grants, including debt relief, and targeted at low-income countries through existing, effective bilateral and multilateral mechanisms. This means that the Facility would neither create new debt for poor countries nor introduce cumbersome bureaucracies that divert funds away from essential investments in poor countries. Full details of the Government's proposal were published in January 2003[1].

The Government has held positive discussions with other countries and international organisations on this proposal and will continue to press the case for an IFF as a matter of urgency. The Government's aspiration is to secure agreement to the establishment of an IFF at the G8 Heads of State Summit in June 2003. To make this a reality, it is essential that the business community and civil society help make the case for an IFF and convince others of the pressing need to take action.

[1] *International Finance Facility*, HM Treasury and the Department for International Development, January 2003.

The UK's commitment

5.102 A solution to the urgent problem of global poverty requires a substantial increase in aid to those nations most in need and willing to focus on the fight against poverty. The 2002 Spending Review announced the largest ever increase in UK aid, raising aid commitments to developing countries from 0.32 per cent of national income in 2002-03 to 0.4 per cent by 2005-06. This represents a near doubling of aid resources in real terms since 1997 and fulfils the UK's obligation under the EU's commitment to reach an aid ratio of 0.39 per cent by 2006. The UK also remains on track to reach the United Nations target of 0.7 per cent.

Improved aid effectiveness

5.103 The Government's intention is that the International Finance Facility will provide a framework for increased aid effectiveness, by committing aid in a predictable way over the long term so as to provide better value for money. Aid effectiveness requires greater coordination between donors, and better harmonisation of the activities of international institutions and the Regional Development Banks in the poorest countries. Crucially, it provides the right incentives for developing countries to fulfil their responsibility to improve governance and implement sound policies. More predictable aid to the poorest, based on clear, country-owned poverty reduction strategies, will enable developing countries to deliver the sustained investment in health and education necessary to meet the MDGs.

5.104 Reform and better allocation of aid must also include implementation of the European Commission's proposals on untying aid and the refocusing of assistance on poorer countries, which could make its aid 50 per cent more effective in reducing poverty.

Debt relief

5.105 The Government continues to be a leading advocate of debt relief through the Heavily Indebted Poor Countries (HIPC) initiative. Twenty-six countries will benefit from debt relief worth \$62 billion already committed under the initiative, reducing their debt payments by around \$1.3 billion each year. Eight of these countries have reached Completion Point and have had their debts irrevocably cancelled. Mali and Benin reached Completion Point in March 2003, and Niger and Rwanda could also reach their Completion Points shortly. The UK already provides 100 per cent debt relief to those countries that have demonstrated a commitment to poverty reduction and has provided \$375 million to multilateral institutions to support the HIPC initiative.

5.106 The Government believes that the provision of debt relief at Completion Point should be flexible and take account of exogenous shocks, such as reduced export earnings resulting from falls in commodity prices to ensure a sustainable exit from debt. At the Annual Meetings of the World Bank and the International Monetary Fund in September 2002, the Government helped to secure agreement to the need for additional funds, of up to \$1 billion, and has already pledged its full share of up to \$120 million. It is important to recognise that resources applied for further debt relief are truly additional. The Government has therefore proposed that the International Finance Facility be able to make disbursements by way of debt relief as well as grants.

Tackling the diseases of poverty

5.107 International commitments to the Global Health Fund for HIV/AIDS, malaria and tuberculosis now stand at $3.37 billion. The Government has so far pledged $200 million over five years of which $80 billion has now been disbursed. The Department for International Development (DFID) has also agreed new bilateral commitments worth over £1.5 billion to help strengthen the capacity of health systems in poor countries. Building on existing tax reliefs for research and development (R&D), Budget 2002 introduced a new tax relief to encourage R&D into vaccines and medicines for the prevention and treatment of specific diseases threatening lives in the poorest countries.

Universal primary education

5.108 Since 1997, DFID has committed over £700 million to help deliver universal primary education in developing countries. The Government will expand this support by a further £1.3 billion over the next five years, with the objective of helping developing country governments to place an extra 20 million children into school by 2006. Donors should help governments to develop sound sector plans within the framework of Poverty Reduction Strategy Programmes, and harmonise and simplify their support for these plans. The Government continues to work with its existing commitments and by seeking to raise additional funds through the International Finance Facility to help deliver on the collective pledge at Dakar three years ago to ensure that no sound plans to deliver education for all are left unfunded.

Trade

5.109 Progress on trade could be worth three times the development aid currently received by the poorest countries. Trade can be a powerful engine for growth. The elimination of barriers to merchandise trade in both industrialised and developing countries could result in welfare gains up to $620 billion annually. One third to one half of the gains would accrue to developing countries. Liberalisation in developing countries must be appropriately sequenced, integrated into country-owned poverty reduction strategies and supported by poverty and social impact analysis. Complementary policies must be in place to support the poor through any transitional disruption. Developed countries must continue to support developing countries in building up their capacity to negotiate internationally and their ability to produce goods and services efficiently and to get them to international markets. Increased aid – including through mechanisms such as an International Finance Facility – will play an essential part in this support, helping developing countries to take advantage of their trading opportunities. Full global trade liberalisation could lift at least 300 million people out of poverty by 2015.

5.110 The Government strongly supports the agreement reached in Doha to launch a new round of trade negotiations, which clearly prioritise the needs of developing countries within the international trading system. It continues to work closely with international partners to ensure that all countries, and particularly the most developed, deliver on the commitments made. Progress on agriculture is especially important. Developed country subsidies to agriculture amount to $1 billion a day – seven times the level of overseas development assistance – and the Government is therefore pressing for significant reform of the EU's Common Agricultural Policy in the current review. The Government is also working to secure provisions in the World Trade Organisation which will improve access to medicines for the poorest people in the world.

Box 5.4: Post-conflict support for Iraq

The Government, working alongside its international partners, will be fully involved in any humanitarian and reconstruction work in Iraq and will seek to engage the United Nations (UN) and the International Financial Institutions early on in this process. The Government has made no final estimate of the likely costs of humanitarian and reconstruction needs in Iraq and will want to draw on the expertise of the international community before firm conclusions can be reached. However, a total of £240 million has so far been set aside for humanitarian assistance in Iraq, including $100 million for UN-led assistance. In addition, the Government is setting aside a further $100 million to back up the UN and the work of reconstruction and international development.

The Government will promote and participate in various methods of international support, including a fair and sustainable solution to Iraq's debt problems, aid flows appropriate to Iraq's needs and resources, technical expertise to help Iraq achieve its economic potential, and a swift end to sanctions once Iraq is in compliance with United Nations demands, including freeing up assets held by Saddam Hussein's regime so that they may in future be used for the benefit and welfare of the Iraqi people.

Chapter 6 sets out further details of the resource allocations the Government has made in response to the developing situation in Iraq.