

The Government is committed to building a stronger, fairer Britain in which everyone can contribute to, and benefit from, rising prosperity.

In challenging economic times, the Government is determined to continue taking action to meet its long-term goals of eradicating child poverty and providing security for all pensioners. To build security in uncertain times, the Government is:

- introducing a new Child Tax Credit from 2003 to provide a seamless system of support for families with children and tackle child poverty;
- introducing the Pension Credit, at a cost of £2 billion in the first full year, to reward pensioners on low and modest incomes for their savings; guaranteeing a rise in the basic state pension of £100 for a single pensioner and £160 for pensioner couples in 2003-04; and maintaining the winter fuel payment at £200 over the lifetime of this Parliament. These measures will help to ensure that all pensioners can share in rising prosperity;
- providing financial support through the Disability Income Guarantee and promoting equal opportunities for disabled people through the work of the Disability Rights Commission and enhancements to the Disability Discrimination Act;
- introducing Saving Gateway pilots and consulting further on the Saving Gateway and the Child Trust Fund to extend the benefits of saving, especially to those on lower incomes; and
- building strong communities to address the problems faced by those in disadvantaged areas of Britain, through the National Strategy for Neighbourhood Renewal and by improving the delivery of local public services.

The Government is also applying the principles of economic reform and social justice to its international efforts to tackle global poverty and help to achieve the challenging Millennium Development Goals set by the international community for 2015.

## INTRODUCTION

**5.1** The previous chapters set out how the Government is helping to build a strong and stable economy for the long term, based on high and stable levels of growth and employment. But a strong and productive economy must also be underpinned by fairness and inclusion so that every individual can fulfil their potential – regardless of gender, disability, ethnicity, age, family circumstance or the area in which they live.

**5.2** The Government believes that where work is an option, it remains the best route out of poverty and social exclusion. Employment brings independence for workers and their families. But while those who can work have a responsibility to do so, those who cannot, and their families, have a right to security and support. Moreover, opportunity should be dynamic, and repeated, rather than one-off. Support must be available at the right time in people's lives, to tackle problems before they take root and to prevent opportunities from being denied.

**The poverty challenge** 5.3 This means continuing to tackle child poverty. The Government's long-term goal is to halve child poverty by 2010 and to meet the Prime Minister's commitment to eradicate it within a generation, extending opportunity for all children and ensuring that people's life-chances are no longer unfairly determined by their childhood circumstances.

5.4 The scale of the challenge is significant. Over the past two decades, while the economy has grown, the proportion of children living in low-income households has more than doubled, while the proportion living in workless households has shown a similar steep rise. This has denied opportunities and impeded the life chances of many, creating long-term problems and damaging the economy as well as society. By the mid-1990s, the UK had the highest rate of relative poverty in the EU and the highest proportion of children living in workless households.

5.5 Tackling child poverty requires a comprehensive strategy, with work for those who can and financial support for the families who need it most. It also requires access to excellent public services for children and young people, their families and the wider community.

5.6 A fair society also guarantees security for people in their old age. The challenge is an urgent one. In 1997 the gap between rich and poor pensioners was as wide as it had been for around 30 years. While average pensioner incomes have risen, improvements have not been evenly distributed, with the poorest having the smallest real increases in incomes. Today, while around one in four pensioner couples retire on at least £20,000 a year, too many have not had the opportunity to build up a decent second pension. Around one quarter of pensioners live in low-income households, depriving them of the security and comfort to which they should be entitled.

5.7 This challenge requires a comprehensive new system of support for pensioners, which targets the greatest help on the poorest pensioners, rewards those who have saved for retirement and which is sustainable in the long-term.

5.8 This chapter describes how, in challenging economic times, the Government is working to deliver a fairer society, strengthening its efforts to tackle poverty and social exclusion and to extend security and opportunity to all. It sets out the Government's approach to:

- supporting families and tackling child poverty;
- providing help for people with disabilities;
- delivering security for pensioners and tackling pensioner poverty;
- supporting saving and asset ownership;
- strengthening community life; and
- creating a modern and fair tax system.

## SUPPORT FOR FAMILIES AND CHILDREN

**The challenge of child poverty** 5.9 The Government's aim is for every child to have the best possible start in life. Children who grow up in poverty experience disadvantage and lack of opportunity that affects not only their own childhood and their experience as adults, but also the life chances of their children.<sup>1</sup>

<sup>1</sup> *Supporting children through the tax and benefit system, the modernisation of Britain's tax and benefit system, number 5, HM Treasury (1999).*

**5.10** The Government recognises the importance of addressing both the current needs of children and of working to break the cycle of poverty and deprivation that could otherwise persist in later life. This requires support through income and services. It also requires support at local and national levels. The Government has therefore put in place a strategy designed to:

- **ensure a decent family income**, with work for those who can and support for those who cannot;
- **deliver excellent public services** in all neighbourhoods and targeted interventions for those with additional needs;
- **support parents** so that they can in turn provide better support for their children; and
- **harness the power and expertise of the voluntary and community sectors**, providing support for innovation and good practice.

**5.11** The Government's third annual anti-poverty report, *Opportunity for All*<sup>2</sup> was published in September 2001. The report shows progress against a range of poverty and social exclusion indicators linked to child poverty, including low-income, worklessness, health, education and housing. For example:

- since spring 1997, the percentage of children in workless households has fallen from 17.9 per cent to 15.3 per cent. Around 300,000 fewer children are now living in a household where no one works; and
- the proportion of 11 year-olds achieving the expected standards in literacy has risen from 63 per cent in 1997 to 75 per cent in 2001, and in numeracy from 62 per cent to 71 per cent.

**5.12** The Government has a Public Service Agreement target to reduce the number of children in poverty by at least a quarter by 2004. Personal tax and benefit reforms announced in the last Parliament mean that families with children in the poorest fifth of the population are now, on average, £1,700 a year better off. As a result, there are now 1.2 million fewer children in relative poverty than there would otherwise have been.

**5.13** As the Government works to achieve its long-term objective of abolishing child poverty in a generation, it is seeking to learn from existing research and international experience, through discussions with academics and others, to inform both policy and targets. The Government will shortly publish a new paper outlining its strategy for tackling child poverty, the progress already made, and setting out a range of issues to inform Budget 2002 and the 2002 Spending Review.

### Financial support for families with children

**5.14** Alongside the rise in the number of children in low-income households, overall, families with children have taken a decreasing share of national income. Between 1979 and 1995-96, average incomes after housing costs rose by 43 per cent for working households without children, but by only 35 per cent for those with children. The Government's approach to tax and benefit reform for families with children is therefore based on two principles:

- providing extra financial support for all families with children, recognising the costs and responsibilities which come with parenthood; and
- targeting help on those who need it most, when they need it most. This includes families on lower incomes, and those with a baby.

<sup>2</sup> *Opportunity for All*, Third Annual Report 2001, Cm 5260.

**5.15** Building on these principles, over the course of the last Parliament the Government introduced a number of changes to help provide decent family incomes, including:

- increasing Child Benefit, with a 26 per cent real terms rise for the first child. Child Benefit is now worth £15.50 a week for the first child and £10.35 for subsequent children;
- introducing the Children's Tax Credit in April 2001 as a replacement for the Married Couple's Allowance. The Children's Tax Credit provides around 5 million families with up to £10 extra a week;
- introducing the Working Families' Tax Credit (WFTC) which benefits nearly 1.3 million families – over 400,000 more than previously received Family Credit. On average, these families are now receiving £35 a week more under WFTC than they did under Family Credit; and
- increasing the children's allowances in Income Support and other income-related benefits, raising rates for children under 11 by 80 per cent in real terms.

**5.16** The Government has also taken action to improve the affordability, accessibility and quality of childcare, reducing the barriers to parental employment. Further details of the Government's National Childcare Strategy are set out in Chapter 4.

### Support in the early years of a child's life

**5.17** The birth of a child places considerable financial pressure on families as new responsibilities and commitments are often combined with a fall in family income. Low-income families face particularly difficult challenges as they strive to help their children in the early months. In the past, the tax and benefit system has not provided adequate support for people with very young children. Financial help has been insufficient and not available quickly enough after the birth of a child.

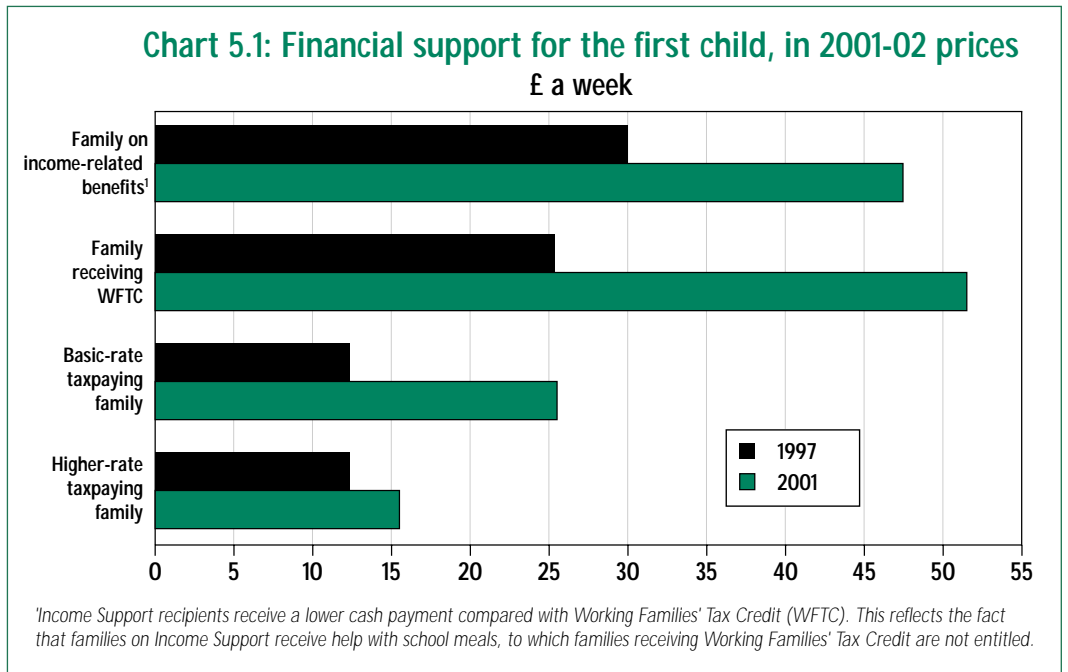
**5.18** To address these problems, and to provide additional help to new parents on low incomes, the Government announced in Budget 2001 that it would:

- **increase the flat rate of Statutory Maternity Pay (SMP) and Maternity Allowance from £62.20 to £75 a week from April 2002 and to £100 a week (or 90 per cent of previous earnings if that is lower) from April 2003. In addition, paid maternity leave will be extended, at this enhanced rate, from 18 to 26 weeks from 2003.** Good maternity provision enables women to stay at home during the crucial first months of a baby's life, and can ease the choice over whether to return to work afterwards;
- **grant working fathers the right to two weeks of paid paternity leave, paid at the same flat rate as SMP, from 2003;**
- **introduce paid adoption leave from 2003 to support adoptive parents in the vital first months after adopting a child.** This will be paid for the same period and at the same flat rate as SMP, starting when the child is first placed with the family. Adoptive parents will be able to choose which of them takes time off work and receives the payment;
- **increase the Sure Start Maternity Grant to £500 from April 2002 – five times the level in 1997 – which will benefit over 200,000 families receiving income-related benefits, WFTC and DPTC each year; and**
- **increase the Children's Tax Credit to £20 a week for families in the year of a child's birth from April 2002.**

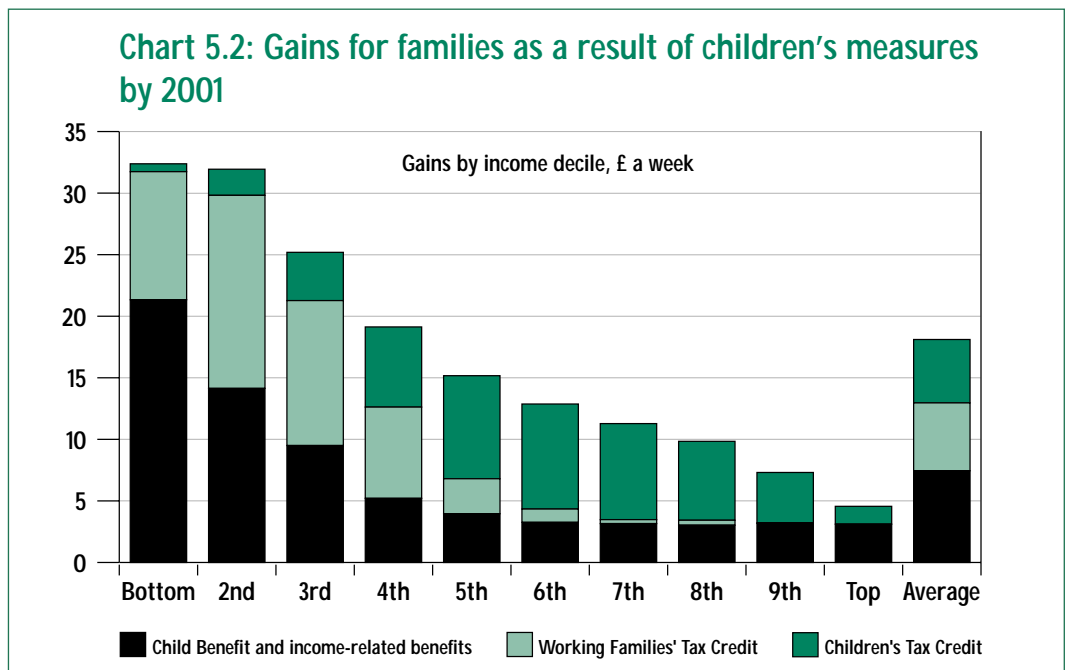
5.19 Building on this increased level of financial support, the Government recently announced a further range of measures to simplify arrangements for maternity leave and pay from 2003, including changes to notification arrangements, the sickness trigger and the timing of unpaid leave. The measures will remove much of the uncertainty from the current system for women and employers alike.

Effects of measures to increase support for families with children

5.20 Chart 5.1 shows that, since 1997, financial support available through the tax and benefit system has increased for all families with children, while the greatest increases have been targeted on families on lower incomes.



5.21 Chart 5.2 shows the impact of the reforms by income decile on families with children.



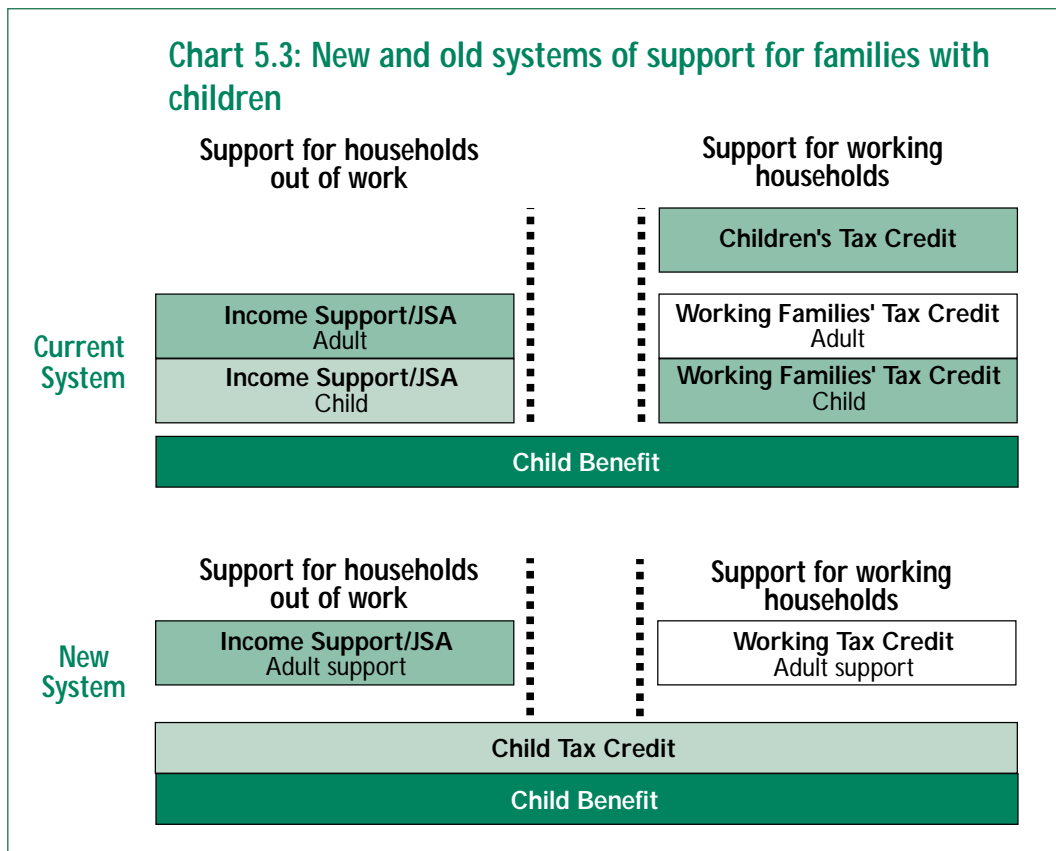
5.22 As a result of the Government's personal tax and benefit reforms since 1997:

- families with children are, on average, £1,000 a year better off, while those in the poorest fifth of the population are on average £1,700 a year better off in real terms;
- a family with two young children on half average earnings of £12,700 is £3,000 a year better off in real terms; and
- a family on average earnings of £25,400 and with two children is £520 a year better off, as well as having the lowest direct tax burden since 1972.

**New tax credits** 5.23 Over the course of the last Parliament, significant steps were taken to support families with children, to tackle child poverty and to make work pay. **Building on these foundations, as announced in Budget 2000, the Government will introduce in 2003 a new system of tax credits to make further progress towards its goals.**

5.24 The new simpler system will separate support for adults from support for the children in a family, provide a common framework for assessing entitlement and rationalise administration. Two new tax credits will therefore be created:

- the Child Tax Credit, discussed below, will provide a single seamless system of support, integrating all the existing, income-related elements of support for children; and
- the Working Tax Credit, discussed in Box 4.3, will extend the principle of in-work support to those without children as well as providing support to working people with children.



Box 5.1: The new Child Tax Credit – an improved framework of support for families with children.

Income-related support for families is currently provided through several different instruments, which are administered by different parts of government. The financial help for children that parents receive also depends on whether they are in or out of work.

The Child Tax Credit will be a single, seamless system of income-related support for families with children. It will build on the foundation of universal Child Benefit, bringing together the support for children currently provided through the child elements of the Working Families' Tax Credit, Disabled Person's Tax Credit, and Income Support or Jobseeker's Allowance, as well as the existing Children's Tax Credit. It will deliver:

- a secure stream of income for families with children which does not depend on the employment status of the parents, creating a stable income bridge when families move into work. It will also extend eligibility to some who are currently excluded from all but Child Benefit, such as students and student nurses;
- a system in which all support for children is paid direct to the main carer, in line with Child Benefit;
- a more transparent system which brings together all income-related child payments into a single, payable tax credit administered by the Inland Revenue;
- greater flexibility, enabling families to access support for children from one system, even as they move into or out of work; and
- a common framework for assessment, so that all families are part of the same inclusive system and poorer families do not feel the stigma associated with more traditional forms of support.

The Child Tax Credit will be complemented by the new Working Tax Credit discussed in Chapter 4. A consultation document, *New Tax Credits: Supporting Families, Making Work Pay and Tackling Poverty*, was published by the Inland Revenue in July 2001.

The consultation period formally ended on 12 October and the Government has received over 170 representations. These have been considered carefully, and the Government will issue a response to the consultation when the necessary primary legislation is published at the end of November. The rates and thresholds for the Child Tax Credit and the Working Tax Credit will be set in Budget 2002.

## Public services to tackle child poverty

**5.25** The Government is committed to tackling the underlying causes of poverty and social exclusion. This means providing world class public services and harnessing the support of the voluntary and community sectors. Chapter 6 describes the Government's approach to building high quality public services throughout the UK. This section sets out how the Government is providing targeted public services to ensure that opportunities are available for everyone at all stages of their lives, and especially during childhood.

**Sure Start** 5.26 Sure Start is a central part of the Government's campaign to eradicate child poverty by 2020. The programme is committed to tackling the causes of poverty and social exclusion by working with parents and children to promote the physical, intellectual and social development of pre-school children. Sure Start programmes are managed by local partnerships between parents, private and voluntary organisations and statutory services, and offer a coherent and integrated service that addresses local needs.

5.27 Over 430 Sure Start programmes have already been announced and 200 are now operational. By March 2004, 500 programmes across the country will be reaching 400,000 children and around one third of young children in poverty. In addition, 20 Sure Start Plus programmes will provide personal, coordinated support for pregnant teenagers and teenage parents as part of the Government's strategy to reduce conception rates among under 18s by 50 per cent by 2010.

5.28 To help children and families living in smaller areas of deprivation, the Government announced in October 2001 the development of 50 programmes in rural areas and small towns. Working closely with Neighbourhood Nurseries and Early Excellence Centres, these programmes will coordinate the delivery of health and educational services to a further 7,500 children.

**Children's Fund** 5.29 The 2000 Spending Review announced £450 million of resources for a new Children's Fund over the three year period to 2003-04. Part of the Fund – £70 million over three years – is being used to provide small scale grants to support projects for children run by voluntary organisations in local communities.

5.30 The remainder of the Fund is being used to support Children's Fund partnerships to provide improved, coordinated local preventative services for 5-13 year olds at risk of social exclusion. The first 40 partnerships have now received full or partial approval for their plans, and the first grant payments were made in October 2001. Around one third of these partnerships are led by voluntary organisations and almost one half by non-statutory organisations. The partnerships provide a range of services including mentoring, learning support, parent training and support, sports and creative art activities, and counselling. The Fund will be rolled out across the country by 2003-04.

### The importance of a good start in education

5.31 Education is an important influence on a child's life chances. A decent education builds employment opportunity and enhances the well-being of people throughout their lives. The Government is determined to remove educational barriers that prevent equal life chances for all.

5.32 Strong numeracy and literacy, together with good communication and technology skills are key to opportunity in the modern economy. The Government has set challenging targets to increase the proportion of pupils with good literacy and numeracy skills by the age of 11. Recent test results suggest that the Government remains on course to ensure that 80 per cent of 11 year olds will meet the targets for literacy and 75 per cent will meet those for numeracy by 2002.

5.33 The Government is also working to develop skills in the early years of secondary school and has set further demanding targets for fourteen year olds in literacy, numeracy, science, and information and communications technology (ICT) for 2004 and 2007. It has also set a series of minimum attainment targets to ensure that the schools system pays more attention to the barriers faced by certain groups of pupils.

**5.34** Closer links between schools and the business sector can provide for a more effective learning environment. Chapter 3 describes the role of the Davies Review of Enterprise and Education and the Roberts Review of Scientists and Engineers, both of which will report to the Government in 2002. In addition, the Government is developing a new vocational route for 14 to 19 year olds that will offer young people the option of developing their skills in a more diverse learning environment, with closer links to business. This will complement the technology, engineering and enterprise elements of the specialist schools programme.

**Connexions 5.35** The Connexions personal adviser service provides support to enable young people aged between 13 and 19 to remain in education or undertake training. Some 15 Connexions partnerships are now in operation and have provided advice on a quarter of a million occasions. The programme will be rolled out across England by 2003.

**Education Maintenance Allowances 5.36** Education Maintenance Allowances (EMAs) enable young people from poorer families to pursue education beyond the age of 16. An EMA pilot programme has been running for two years and now covers 30 per cent of the country. Initial evidence from the evaluation programme has been positive. Since the programme began, educational participation has increased, on average, by 5 percentage points among those eligible for support. Young people from the poorest families have shown the strongest results, with participation among this group increasing by 7 percentage points.

**5.37** While these early signs are encouraging, success can only be measured by considering the long-term impact of EMAs on retention and achievement. The Government will continue to review the performance of EMAs over the longer-term and, as reiterated in the November 2000 Pre-Budget Report, will consider whether EMAs should eventually replace Child Benefit for young people over 16 years of age.

## FAIRNESS FOR PEOPLE WITH DISABILITIES

**5.38** The Government is determined to increase opportunities for people with disabilities to live fulfilling and independent lives. The New Deal for Disabled People (NDDP), described in Chapter 4, is providing tailored advice and support to help those who can and wish to work, make a successful return to employment. The Disabled Person's Tax Credit (DPTC), also described in Chapter 4, has increased the gains to work for people with disabilities, easing the transition from welfare to work, and providing support for people with disabilities in low to middle-income households.

**5.39** People with disabilities who are unable to work should also benefit from financial security and support. The Disability Income Guarantee, introduced from April 2001, ensures that severely disabled people under 60 years of age on income-related benefits receive a guaranteed income of at least £142 a week for single people, and £186.80 a week for couples. Since April 2001, reforms to Incapacity Benefit have provided up to £26.40 a week extra for people who were disabled before the age of 20. **The Secretary of State for the Department for Work and Pensions will shortly be announcing details of further measures to help disabled children.**

**5.40** Helping carers is one of the best ways of providing support to many disabled people. In April 2001, the earnings threshold in Invalid Care Allowance was raised from £50 to £72 a week, and the Carers' Premium in Income Support raised to £24.40. As soon as is practicable, the Government will extend eligibility for Invalid Care Allowance to carers over 65 and introduce an 8 week run-on after the death of the person being cared for.

**5.41** Delivering fairness for disabled people also requires action beyond financial support. Discrimination against people with disabilities, in the workplace and more widely, must also be prevented. The Disability Rights Commission is working to eliminate discrimination, promote equal opportunities for disabled people and encourage good practice. The Government has consulted on proposals to strengthen further the Disability Discrimination Act and is considering the responses received <sup>3</sup>.

## FAIRNESS FOR PENSIONERS

**5.42** A fair society guarantees security for people in their old age. The Government is therefore committed to developing policies which enable pensioners to share in the country's rising prosperity and which tackle pensioner poverty. This means:

- targeting extra financial support on the poorest pensioners through a minimum income guarantee;
- rewarding today's low and modest-income pensioners who have saved for their retirement through the new Pension Credit;
- helping all pensioners by guaranteeing a rise in the annual basic state pension of £100 for a single pensioner and £160 for pensioner couples in 2003-04, and setting the winter fuel payment at £200 for the Parliament; and
- creating a sustainable system of support which enables today's workforce – tomorrow's pensioners – to plan ahead and make decent provision for their retirement, protecting themselves against poverty in the future.

### Tackling pensioner poverty

**5.43** The Government's first priority has been to help those in greatest need. The pattern of pensioner incomes today reflects that of earners. Like earners, the richest fifth of pensioners are now three times better off than the poorest fifth. Too many pensioners have not shared in the rising prosperity of the country.

#### Minimum Income Guarantee

**5.44** To address this growing divide, the Government has reformed Income Support for pensioners by introducing a more generous Minimum Income Guarantee (MIG). From April 2001, the capital rules were reformed to reward those who have saved, and the age-related lower rates were abolished so that everyone on the MIG is entitled to the highest rate of support. The Government is committed to raising the MIG in line with earnings throughout this Parliament, to ensure that pensioners can share in rising prosperity.

**5.45** Around two million pensioners currently benefit from this extra support and the Government is determined to promote further take-up. The introduction of the Pension Service next April and the Pension Credit in 2003 will encourage more people to claim the support to which they are entitled.

### Security for all pensioners

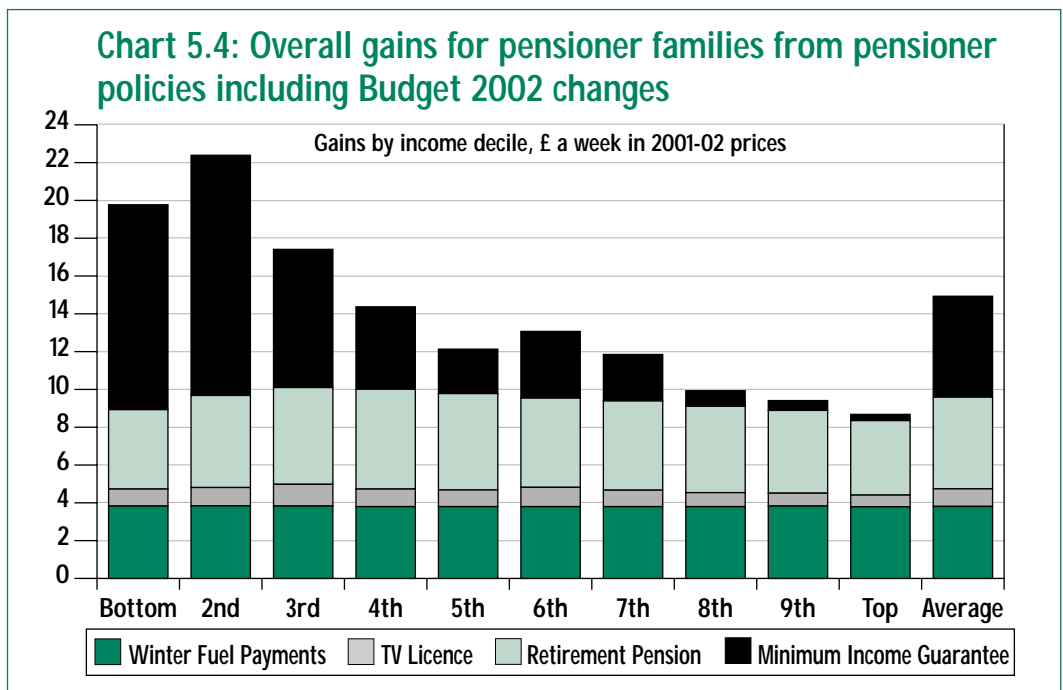
**5.46** All pensioners are entitled to security in retirement, not just the poorest. Free TV licences for households with someone aged 75 or over, and free eye tests for those over 60, have helped all pensioners, regardless of their income.

<sup>3</sup> *Towards Inclusion – Civil Rights for Disabled People*, Department for Education and Employment, March 2001.

5.47 In addition, the winter fuel payment currently benefits around 8 million households with someone aged 60 or over each winter. The Government has already announced that the winter fuel payment for this year will be set at £200. **To ensure that these households continue to receive help, the winter fuel payment will be maintained at £200 for the remainder of this Parliament.** This will provide extra reassurance and security for all pensioners over the coming years.

5.48 To increase further the level of financial support offered to all pensioners, from April 2001 the full basic state pension was increased by £5 to £72.50 a week for single pensioners and by £8 to £115.90 a week for couples. As confirmed in Budget 2001, **the Government will increase the basic state pension by a further £3 to £75.50 for single pensioners, and by £4.80 to £120.70 a week for couples in April 2002.**

5.49 Next year the Government will be spending around £6 billion extra in real terms on pensioners as a result of policies since 1997. This will ensure that the poorest third of pensioners receive an additional £2.5 billion next year – three times more than an earnings link in the basic state pension would have given them.



5.50 The Government's measures form a comprehensive package of support to tackle pensioner poverty and help all pensioners. By April 2002, as a result of the Government's tax and benefit reforms compared with the 1997 system:

- on average pensioner households will be £840 a year better off – more than £16 extra a week; and
- around 1.8 million of the poorest pensioner households will be over £1,000 a year better off – a real terms rise in living standards of at least 23 per cent. Younger couples on the MIG will have seen a gain of over £1,800 a year.

5.51 **Building on this support, the Pre-Budget Report guarantees that the annual basic state pension will rise by £100 for a single pensioner and £160 for pensioner couples in 2003-04. Subsequently the basic state pension will rise each year by 2.5 per cent or the increase in the September Retail Price Index, whichever is higher.**

### The Pension Credit: rewarding low and modest income pensioners

**5.52** The Government believes that there is more to do to tackle pensioner poverty and to help ensure that pensioners share in rising economic prosperity. This means providing greater support, not only for the very poorest, but also for those on low and modest incomes.

**5.53** Last year, the Government published proposals to introduce the Pension Credit. The proposals were widely welcomed by respondents and **the Government has decided to proceed with the introduction of the Pension Credit in 2003 at a cost of £2 billion in the first full year**. The Secretary of State for Work and Pensions will publish shortly a response to the consultation setting out details of how the Pension Credit will work, alongside legislation to introduce it.

**5.54** The Pension Credit will ensure that millions of pensioners who have saved modest amounts – whether through an occupational scheme, a stakeholder pension, the State Second Pension or other savings – will gain from having done so and be rewarded for their thrift and effort.

**5.55** The Pension Credit will work in two ways. First, it will bring pensioners up to a guaranteed minimum income. Second, it will reward those who have saved for retirement to ensure that it pays to have saved even quite modest amounts. Box 5.2 provides more detail on the Pension Credit.

## Box 5.2: The Pension Credit

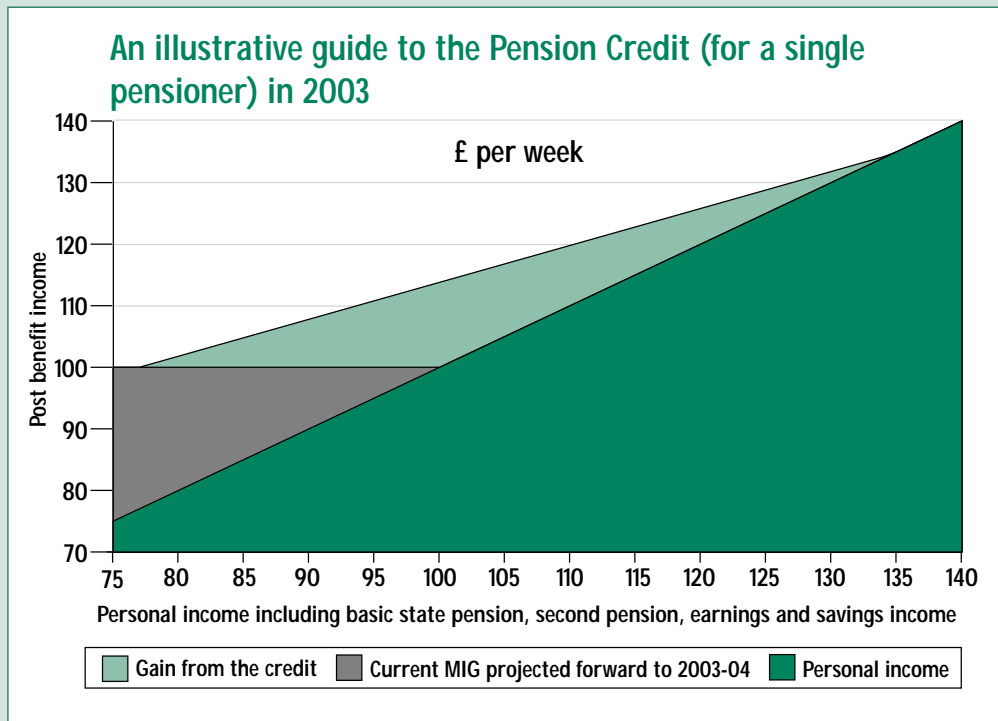
The Pension Credit, to be introduced from 2003, will provide a fair deal for pensioners, tackling the unfairness and complexities of the current system. It will reward pensioners who have built up modest savings or second pensions during their working lives.

Under the current system, pensioners on the MIG lose a pound of benefit for every extra pound of their second pension or earnings income. Many also see their benefit dramatically reduced, or are excluded from benefit altogether, simply because they have small amounts of capital. To address these problems the Pension Credit will:

- guarantee a minimum income for pensioners;
- reward saving for retirement;
- revise the current capital regime;
- abolish the weekly means test; and
- protect the position of people on Housing Benefit and Council Tax Benefit.

The guaranteed minimum income level will be linked to the growth in average earnings throughout this Parliament. This means that all pensioners receiving the Credit will gain, year-on-year, a larger increase from the state than they would receive from an earnings link in the basic state pension. Around half of all pensioner households will be entitled to the Pension Credit.

To illustrate, under current arrangements a pensioner in 2003 with a basic state pension of £77 a week and an occupational pension of £14 a week would have their income topped up by £9 to the level of the MIG, at £100 a week. They would see no gain at all from their occupational pension. Under the new arrangements they would receive £17.40 a week of Pension Credit, taking their income to £108.40 a week. Full details of the Pension Credit will be set out by the Secretary of State for Work and Pensions shortly.



**5.56** Based on current assumptions about future growth in prices and earnings, and taking into account the further changes the Government intends to make, on its introduction in 2003 the Pension Credit will:

- reward pensioners whose savings, second pensions or earnings give them incomes of up to around £135 a week for single pensioners and £200 a week for couples;
- mean that no single pensioner need live on less than £100 a week and no pensioner couple on less than £154 a week; and
- extend support to around half of all pensioner households.

### Support for pensioners who pay tax

**5.57** In the same way that the Pension Credit will deliver year-on-year increases to low and modest income pensioners, so the Government intends to help better off pensioners too. Most pensioners have no income tax to pay. But for those who do, **the age-related personal allowances will be raised at least in line with earnings rather than prices from 2003-04 and for the remainder of the Parliament.**

### Helping tomorrow's pensioners

**5.58** To help protect future pensioners from the poverty and inequality that many of today's pensioners have had to bear, the Government is providing today's workers with the opportunity to build up a decent second-tier pension by the time they retire, through:

- SERPS reform, which will provide more support than in the past for moderate and lower-paid workers, and for carers and the disabled. Some 18 million people stand to gain from the introduction of the State Second Pension in April 2002; and
- the introduction in April 2001 of stakeholder pensions, which provide a safe, flexible and low-cost way to save for retirement for moderate earners.

## SUPPORTING SAVING

### The Government's savings strategy

**5.59** Saving and asset-ownership provide people with security if things go wrong, with comfort in retirement and with long-term independence and opportunity. The Government's strategy to encourage saving is based on three pillars:

- creating the right environment for saving, including a stable economy and a well regulated and efficient market in financial services. Chapter 3 describes a review of the medium and long-term retail savings market launched by the Government in July 2001;
- creating the right incentives for people to save, including extending tax advantaged savings to more groups and by raising the 10 pence starting rate of income tax by £300 above indexation in Budget 2001, benefiting around 1 million savers; and
- providing information and education to help people make the right saving choices for themselves, including introducing financial education into the National Curriculum for schools.

**5.60** In addition to these measures, the Government is also consulting on two new targeted policies – the Saving Gateway and the Child Trust Fund – designed to extend the benefits of saving and asset-ownership to all, and particularly to lower income earners and families. Initial details of the Government’s proposals were published in April 2001 in a consultation document, *Saving and Assets for All*. A wide range of stakeholders have been involved in the consultation process, and the response has been very positive. **Results of the consultation are being published today in *Delivering Saving and Assets*, which also presents further issues for consultation.**

**Saving Gateway** **5.61** The Saving Gateway would be an account targeted at individuals from low-income groups, providing a Government-funded match for all money saved, up to a limit. It would offer individuals a valuable and transparent financial incentive to develop a regular saving habit and provide tailored financial information to inform saving choices. Building on the results of the consultation exercise, **the Government now intends to launch a number of Saving Gateway pilot projects** to assess how best to integrate and deliver the local outreach, financial account management, and educational services that would be needed to make the Saving Gateway work.

**Child Trust Fund** **5.62** As well as supporting saving, the Government also wants to spread the benefit of asset-ownership to all. The Child Trust Fund (CTF) is a proposal for a universal account, with endowments paid to all children at birth and at ages 5, 11 and 16, with children from the poorest families receiving the most help. Parents, family, friends, and children themselves would be able to make their own contributions to the account and benefit from targeted and relevant financial education.

**5.63** *Delivering Saving and Assets*, sets out the full range of responses to the Government’s proposals and provides answers to the specific questions raised by the consultation. It also consults on two detailed proposals for delivering the CTF:

- an open-market model, in which the CTF would be delivered by financial service providers, like ISAs and stakeholder pensions; and
- a preferred panel model, with a more limited number of providers offering the CTF in partnership with the Government.

**5.64** The Government encourages and looks forward to continued input into the development of these initiatives.

**Individual Savings Accounts** **5.65** Individual Savings Accounts (ISAs) have continued to attract high volumes of saving, despite the downturn in global equity markets. Around 12 million investors have contributed £60 billion to ISAs in their first two years. In the first quarter of 2001-02, subscriptions to mini cash ISAs – which have attracted relatively more low income and younger savers<sup>4</sup> – rose by 40 per cent to £6.5 billion, compared with £4.6 billion for the same period in 2000-01.

**5.66** The Government has re-affirmed its commitment to the ISA as a key element of its saving strategy. Budget 2001 extended the £7,000 contribution limit for five years, together with the higher £3,000 limit for cash contributions. Overall, the introduction of ISAs means that in 2005-06 savers will be receiving £800 million a year more in tax relief than if the old Personal Equity Plan and Tax-Exempt Special Savings Account regime had remained in place.

<sup>4</sup> Inland Revenue analysis of the NOP Financial Survey for 1999-2000 and 2000-01.

**Stakeholder pensions** 5.67 A principal aim of the Government's savings strategy is to help people provide for financial security and comfort in old age. As well as providing generous tax relief for pensions, since April 2001 the Government has also extended the benefits of pension saving to previously excluded groups through the launch of stakeholder pensions.

5.68 Stakeholder pensions are particularly suitable for moderate earners without a current pension. Since 8 October 2001, employers without pension schemes who employ five or more people have been required to offer access to a stakeholder pension to eligible employees. Those without earnings are also able to contribute at least £3,600 a year to a stakeholder pension, so that, for the first time, people caring for children, on a career break or studying have access to a tax-favoured retirement savings product. Members of employers' schemes earning less than £30,000 per year are also able to contribute to a stakeholder pension alongside their occupational scheme.

5.69 There are currently 48 registered stakeholder pension schemes available. Figures suggest that around 210,000<sup>5</sup> employers had designated stakeholder schemes by the end of September. Many of the schemes available exceed the minimum requirements set by the Government and low stakeholder charges have had a wider effect in exerting downward pressure on pension charges.

**Annuities** 5.70 Pensions provide a secure income throughout retirement. Where a pension fund has been built up through a defined contribution scheme, an annuity is currently the only financial product that can guarantee this, as it guards against the risk of someone's savings running out during their lifetime.

5.71 In Budget 2001, the Government expressed concern that some people may not be exercising their open market option – to purchase an annuity from a provider other than that with whom they invested their pension. Pensioners in particular could be substantially worse off for not shopping around when buying their annuities. The Financial Services Authority (FSA) will announce early next year the results of a recent consultation on proposals to ensure that policyholders are informed when they approach retirement that their annuity may be purchased from a life office other than their present pension provider.

5.72 The annuities market has continued to develop the product range available, giving pensioners more choice. **The Government plans to publish a consultation document on how better to promote competition in this market and thereby improve the benefits to customers.**

## STRENGTHENING COMMUNITY LIFE

5.73 Conditions in Britain's most disadvantaged communities are unacceptably poor. In England's most deprived wards, over 60 per cent of children live in poverty, compared with only 6 per cent of children in the least deprived wards. Those living in poorer neighbourhoods must also cope with a run-down physical environment, limited opportunities and often the poorest public services too.

5.74 Chapter 3 describes the measures the Government is taking to promote enterprise in disadvantaged areas and Chapter 7 sets out the Government's strategy to improve the urban environment and stimulate urban regeneration. This section describes additional steps the Government is taking to build stronger communities across Britain and to tackle social exclusion.

<sup>5</sup> Figures calculated by the Association of British Insurers (ABI).

## Public services to tackle social exclusion

**5.75** The 2000 Spending Review set specific Public Service Agreement targets to ensure that everybody, wherever they live, can expect a decent minimum level of public services. These targets are designed to close the gap between the most disadvantaged communities and the rest of the country by improving health, education and employment outcomes, reducing crime and improving the condition of social housing.

**Neighbourhood Renewal** **5.76** The National Strategy for Neighbourhood Renewal sets out the Government's vision to narrow the gap between Britain's poorest neighbourhoods and the rest of the country so that, within 10 to 20 years, no one should be disadvantaged by where they live. As part of this Strategy, the Neighbourhood Renewal Fund is providing £900 million over three years to the 88 most deprived areas in England, giving additional support to local authorities and other key partners in these areas. Local groups in these areas will also benefit from Community Chests, which will offer a further £50 million over three years to support specific community projects.

**Local Strategic Partnerships** **5.77** Local Strategic Partnerships (LSPs) bring together public, private, community and voluntary sector partners to develop neighbourhood renewal strategies at a local level. LSPs will ensure that the delivery of public services meets the needs of local residents and will coordinate solutions to tackle social exclusion. Given the importance of community involvement to the success of LSPs, the Community Empowerment Fund will provide £36 million to support participation in the same 88 most deprived local authority areas.

**New Deal for communities** **5.78** The New Deal for Communities is investing £2 billion over 10 years in 39 neighbourhoods around the country. These funds are being used by local partnerships to reduce crime, improve health, increase employment, raise educational achievement and improve housing and the physical environment. The Government is also providing a further £43 million to fund Neighbourhood and Street Wardens and £45 million to support Neighbourhood Management pathfinders.

**Strengthening rural communities** **5.79** The recent Government White Paper, *Our Countryside: the Future*,<sup>6</sup> set out a vision of a countryside in which people have access to the jobs and services they require as part of a diverse and successful rural economy. To deliver this vision, the 2000 Spending Review allocated £1 billion over three years to help secure improvements in health, education, housing and transport for rural communities. This is in addition to £600 million available over the same period through the Rural Development Programme. These resources will have a real impact on the development of the countryside, helping to build 3,000 affordable houses a year in small rural communities, establishing a £15 million fund to meet the transport needs of parishes, injecting £37 million into market town regeneration, and providing improved rural services such as new primary health care centres with internet and tele-links to local hospitals.

## Strong communities and the voluntary sector

**Community amateur sports clubs** **5.80** The Government recognises the positive contribution community amateur sports clubs (CASCs) make to their local communities, including improvements to people's health and by contributing to reductions in crime. In Budget 2001, the Government stated that it would look into ways in which tax relief could support CASCs that make a positive contribution to their local communities. **The Government intends to publish a consultation document shortly, seeking views from interested parties before finalising decisions on the best way to support CASCs.**

<sup>6</sup> Cm 4909, published November 2000.

**Giving Campaign** 5.81 The Giving Campaign – an independent national campaign launched in 2001 – aims to increase the amount of money and time given to charitable causes. The Campaign has successfully increased awareness of planned tax efficient giving among charities, the public and financial advisers. The Government is working in partnership with the Campaign, providing support through funding and civil service secondments.

**Gift Aid** 5.82 The tax rules for gifts to charity were reformed in 2000 to improve incentives for giving and make the system work better for charities. The changes were welcomed by charities and, for the first time, Gift Aid provides a 28 per cent addition on every donation by individual tax payers to recognised charities. Appeals to contribute foreign currency to charity can receive this top-up. In addition, the Inland Revenue will consult charities on whether to allow tax payers to donate directly to their designated charities on the annual tax form and to gain tax relief for doing so.

## A MODERN AND FAIR TAX SYSTEM

5.83 The Government is committed to the prudent management of the public finances based on a tax system in which everyone pays their fair share.

### Modernising VAT

**VAT and Museums** 5.84 The Government is committed to universal free access to the main national museums and galleries. Budget 2001 announced the introduction of a new scheme to refund national museums and galleries the VAT they incur on their purchases when they allow the public free admission, thereby removing the main barrier to free entry. As a result of this scheme, which came into effect in September, those main national museums and galleries which have been charging for admission will allow free entry by the end of the year.

### Betting

**The Gross Profits Tax** 5.85 In Budget 2001, the Government announced that the tax on betting stakes would be replaced with a tax on bookmakers' gross profits. These reforms were introduced on 6 October 2001, three months ahead of schedule. As a result, the largest bookmakers have relocated their offshore operations to the UK and removed the 9 per cent deduction previously charged on stakes, making it possible for them to develop their domestic and international business from a UK base, and to compete from a position of strength in the growing global market for telephone and internet betting.

**Taxation of pools betting** 5.86 Building on these reforms, the Government now intends to introduce significant changes to the tax treatment of pools betting. **In Budget 2002, the current pools betting duty will be abolished and replaced by a 15 per cent tax on pools companies' gross profits.** As a result of these steps, the leading football pools companies have agreed to extend their funding of the Football Foundation and the Foundation for Sports and the Arts for a further two years until April 2004. This funding – equivalent to 4 per cent of the pools companies' gross profits – will help these Foundations to continue their vital work in supporting grass-roots sports clubs and community arts projects.

### Excise duties

**Small brewers** 5.87 Britain's several hundred small breweries make a valuable contribution to the nation's cultural heritage, particularly in rural communities where the majority are located. To support this industry, the Government announced in Budget 2001 that it was minded to introduce reduced rates of duty on the beer produced by smaller breweries. The Government is considering the scope for introducing such a scheme in close consultation with the brewing industry, and will announce its decision in Budget 2002.

**Tackling tobacco smuggling** 5.88 It is widely recognised that tobacco smuggling not only undermines the Government's health objectives, but also involves widespread and serious criminality. In March 2000, the Government announced its *Tackling Tobacco Smuggling* strategy, designed first to slow the upward trend in tobacco smuggling and subsequently to put it into decline within three years. The strategy included a target for 2000-01 to hold the share of the UK cigarette market taken up by smuggling to 21 per cent. To help achieve this, the Government provided £209 million for investment in extra staff and scanning equipment.

5.89 The first full year of the strategy has brought a number of encouraging results. More than 2.8 billion cigarettes destined for the UK market were seized in 2000-01: 1.9 billion in the UK itself and 900 million through joint operations with overseas enforcement agencies. HM Customs and Excise investigators have also broken up dozens of major organised crime gangs involved in smuggling huge volumes of illicit cigarettes. As a result of this action, smuggling is estimated to have accounted for 21 per cent of the UK cigarette market in 2000-01, in line with the Government's target.

**Cross-Channel smuggling** 5.90 Significant action has also been taken to tackle cross-Channel smuggling of alcohol and tobacco, leading to a 76 per cent overall reduction in the revenue lost from this type of smuggling in 2000-01, well in excess of the 10 per cent target set by the Government for this period. HM Customs and Excise also seized more than 10,000 vehicles used by smugglers in 2000-01 – almost double the number seized in the previous year.

**Tackling fraud and smuggling** 5.91 **The Government is today publishing a new paper, *Tackling Indirect Tax Fraud*, which sets out the strategic principles underlying its approach to tackling fraud**, and shows how the effectiveness of this approach has been demonstrated by the progress of the *Tackling Tobacco Smuggling* strategy. The paper also outlines the steps being taken to tackle fraud in other areas and sets out a number of new proposals for consultation.

## PROMOTING INTERNATIONAL POVERTY REDUCTION

5.92 The Government remains focused on its long-term goal of helping to tackle global poverty and achieve the internationally agreed Millennium Development Goals (MDGs) by 2015. These goals include halving the proportion of people living in extreme poverty, providing universal access to primary education, reducing child and maternal mortality and reversing the spread of HIV/AIDS, malaria and other killer diseases.

5.93 To advance these goals, the Government is working in partnership with developed and developing countries, the international financial institutions, the private sector and civil society to relieve the burden of debt on poor countries, strengthen social systems in developing countries and ensure that developing countries can participate in, and benefit from, the global financial system. The Government is promoting four important steps to increase global prosperity and promote social justice:

- an improvement in the terms on which the poorest countries participate in the global economy and their capacity to do so, through new codes and standards that all countries can sign up to;
- the adoption by business of high corporate standards of engagement as reliable and consistent partners in the development process, including the creation in developing countries of investment forums between the public and private sectors;
- building on the progress made in Doha, the development of an improved trade regime in which developing countries can participate on fair terms ; and

- a significant increase in development aid from all donor countries and international institutions to build capacity and address the long-term causes of poverty in the poorest countries. The Government has proposed an international development trust fund to pool contributions and build on the work of the World Bank, the IMF and the Regional Development Banks.

**Debt relief 5.95** The Government continues to be a leading advocate of debt relief, through the Heavily Indebted Poor Countries (HIPC) initiative, and has encouraged other countries to adopt the UK's practice of providing 100 per cent bilateral relief, and holding payments in trust for countries yet to receive debt relief. The Government recognises the need to take into account the deterioration in global growth prospects and the decline in terms of trade when considering possible additional assistance and updating debt sustainability analyses.

**5.96** So far, 24 countries have started to receive debt relief worth \$56.4 billion under the HIPC initiative, while three countries have now completed the process. The Government stands ready to write off £1.9 billion of bilateral debt owed to the UK by HIPC countries. It has already provided £118 million of bilateral debt relief and has pledged US \$375 million to the multilateral institutions in support of the HIPC initiative. The Government has also granted interim debt relief of over £575 million, which will become irrevocable when countries complete the HIPC process. For the remaining 18 HIPCs, the Government stands ready to write off a further £1.3 billion.

**Global Health Fund 5.97** Every year almost 6 million people die from HIV/AIDS, malaria and tuberculosis, almost all in the world's poorest countries. To step up the fight against these diseases, the Government has taken a lead in the development of a new Global Fund to fight HIV/AIDS, tuberculosis and malaria. The Fund will provide resources to purchase medicines and create a market to stimulate research into new treatments for the diseases of poverty. The Fund has so far received international commitments totalling \$1.8 billion, of which the Government has pledged \$200 million. The Government is continuing to work with its international partners to ensure the effective operation of the Fund.

**5.98** In addition, the Government has established a High Level Working Group on Access to Medicines, chaired by the Secretary of State for International Development. The purpose of the group is to work in partnership with key stakeholders to increase access to essential medicines by poor people in developing countries.

**5.99** As announced in Budget 2001, the Government is consulting with the UK pharmaceutical industry on a new tax credit to reward research and development (R&D) into drugs and vaccines to treat diseases threatening lives in the least developed countries. Only 18 per cent of the world's pharmaceutical market is in developing countries that make up 80 per cent of the world's population. Within these countries, the poorest spend a high proportion of their income on often unsuitable treatments. The current R&D pipeline for effective drugs and vaccines is negligible.

**5.100** The new tax credit will be additional to existing incentives. For companies undertaking research into specified diseases, it could provide an extra 50 per cent relief on qualifying expenditure. In Budget 2001, the Government challenged the pharmaceutical industry to respond to these new incentives with a new commitment to increase R&D into HIV/AIDS, tuberculosis and malaria.

**5.101** The Government is also investigating options for increasing the incentives for pharmaceutical companies to donate drugs, vaccines and suitable equipment in support of developing countries' health strategies.

### Commonwealth Education Fund

**5.102** Today, around 75 million children in Commonwealth countries lack access to basic education, destroying life chances and threatening to lock in a cycle of poverty and deprivation. The Government is committed to working with its international partners to making progress towards the 2015 goal of ensuring every child has access to primary education. To raise public awareness of this issue, the Government has announced that a new Commonwealth Education Fund will be launched in the Queen's Jubilee Year to which the private and public sectors are expected to contribute.

**5.103** Taken together, these measures will help to improve health and education outcomes and reduce poverty in the poorest countries. But they are only a start. To make progress toward the MDGs, they need to be supported by sustained, long-term investment in healthcare and education systems in developing countries. Since 1997, the Department for International Development (DFID) has agreed new bilateral commitments worth over £1 billion to help improve the provision of basic healthcare in poor countries. Over the same period, DFID has also agreed new bilateral commitments worth over £600 million to support sustainable education systems in those developing countries that are able to provide high-quality primary education for all children.

#### Box 5.3: Financing for Development

In March 2002, in Monterrey, Mexico, UN Secretary-General Kofi Annan will bring together developed and developing countries, multilateral institutions, non-Governmental organisations and the private sector, for a major conference on Financing for Development. The conference is an opportunity for all relevant stakeholders to agree concrete steps towards the achievement of the Millennium Development Goals for 2015 – through a focus on sound domestic policies and good governance, a better climate for investment, and an increase in the level and effectiveness of international development assistance.

Led by the Department for International Development the Government is actively involved in preparations for the conference. The government's objective is to secure a broad-based consensus on a new approach to development, in which:

- developing countries commit to pro-poor policies, including economic stability, good government, and support for health and education – through the new Poverty Reduction Strategies;
- developed countries open their markets to developing country exports, improve the effectiveness of their aid (including through better coordination, and the untying of aid from commercial contracts), and make progress towards the 0.7 per cent target for the proportion of GNP devoted to aid; and
- the international community as a whole continues to develop a framework for economic growth and stability, in particular through the new focus on poverty reduction being pursued by the IMF and World Bank.

The Chancellor set out the UK's approach to globalisation and development issues in his 16 November speech to the New York Federal Reserve and proposed a new \$50 billion international development fund to increase development aid from all donor countries and institutions. The subsequent meeting of the International Monetary and Financial Committee, chaired by the Chancellor, concluded that "advanced economies must also be prepared to meet their special responsibility in providing increased development assistance and debt relief to tackle the increased challenges of poverty reduction, and to achieve the Millennium Development Goals".

