

## BUILDING A FAIRER SOCIETY

The Government is committed to building a fairer and more inclusive society in which everyone can contribute to, and benefit from, rising national prosperity. Budget 2002 continues the Government's work to tackle child poverty, provide security for pensioners, encourage saving, tackle global poverty and promote a modern and fair tax system. To realise its goals in these areas, the Government is:

- introducing a new **Child Tax Credit** from April 2003 to provide a single, seamless system of income-related support for families with children;
- increasing the **child allowances in Income Support and Jobseeker's Allowance** by £3.50 a week from October 2002 to reduce further the number of children in poverty in advance of the new Child Tax Credit;
- confirming the comprehensive package of support for pensioners announced in the Pre-Budget Report, including guaranteed increases in the **basic state pension**, a new **Pension Credit** from 2003, and **winter fuel payments** of £200 a year for each year of this Parliament;
- increasing the **income tax personal allowance for 65 to 74 year olds** in 2003-04 to £6,610, ensuring that no pensioner aged 65 or over will pay tax on income of less than £127 a week;
- **modernising the annuities market** to increase the choice for consumers and help to ensure that annuities provide a secure income in retirement;
- launching **Saving Gateway pilot projects** in four pilot areas from August 2002 to promote a regular savings habit among low-income groups;
- introducing a **new tax credit to promote research and development into drugs and vaccines** for diseases threatening lives in the world's poorest countries;
- **closing loopholes in stamp duty on property**, modernising the current regime and ensuring it applies fairly to all relevant transactions;
- making important changes to the **North Sea tax regime** and modernising the **taxation of foreign companies' branches in the UK**;
- taking further steps to ensure a **fair system of alcohol and tobacco taxation**;
- providing further support through the tax system for **community amateur sports clubs and charities**, and to encourage charitable donations; and
- implementing a range of **measures to tackle indirect tax fraud and unfair tax avoidance**.

## INTRODUCTION

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**5.1** Previous chapters have set out how the Government is helping to deliver a strong and stable economy, based on high and stable levels of growth and employment and faster productivity growth. This chapter describes how the Government is working to ensure that economic strength is underpinned by fairness and social inclusion so that every individual has the chance to fulfil their potential, regardless of their circumstances or where they live.

### A modern welfare state

**5.2** Since 1997, the Government has placed welfare reform at the heart of its strategy for promoting fairness and inclusion. A modern welfare state is the means to ensure that everyone in society has an equal chance to share in rising national prosperity.

**5.3** Although the world has changed greatly since Beveridge published his vision in 1942, the principles which underpin the welfare state remain those of:

- **opportunity** for people to improve their circumstances and the circumstances of their families;
- **security** to protect people from undue hardship that can arise from life events; and
- **responsibility** of everyone to themselves, their families and society to make the most of opportunities, for example through employment.

**5.4** The old welfare system was failing on many counts. It was passive and reactive, delivering poor quality, fragmented services. Welfare benefits were seen as being mainly for the poor, and were stigmatising as a result. High marginal rates of withdrawal of benefits meant that people did not always see much gain from moving into work or increasing their hours. Vulnerable groups, notably children, were left behind as others benefited from rising living standards.

**5.5** The new welfare system puts into practice the principles of progressive universalism, giving everyone a stake in the system while offering more help to those who need it most. Modern, high quality, integrated services, such as Jobcentre Plus and the Pension Service, will offer active advice and support, tailored to people's circumstances. Where appropriate, financial support will be delivered through the tax system, reducing stigma. Fewer families suffer from very high marginal deduction rates when they move into work or increase their hours; and there is a renewed focus on children and pensioners.

**5.6** This chapter describes how the Government is applying these principles of welfare support to help families with children and tackle child poverty, deliver security for pensioners and tackle pensioner poverty, and provide help for people with disabilities. It also sets out the Government's wider strategy for building a fairer society – supporting saving and asset ownership, strengthening community life, and establishing a modern and fair tax system – and explains how the Government is leading international efforts to achieve the Millennium Development Goals.

## SUPPORT FOR FAMILIES AND CHILDREN

**The challenge of child poverty** 5.7 The Government's aim is for every child to have the best possible start in life. Over the past two decades, while the economy has grown, the proportion of children living in low-income households has risen sharply. Those living in poorer neighbourhoods have often had to cope with the worst public services too, including education, health and housing.

5.8 Tackling childhood disadvantage is particularly important because childhood experience lays the foundations for later life. Children growing up in low-income households are more likely than others to have poor health, perform badly at school, experience unemployment as adults or earn lower wages. The Government is therefore committed to halving child poverty by 2010 and abolishing it within a generation.

5.9 The Government's strategy was set out in the 2001 Pre-Budget Report document, *Tackling child poverty: giving every child the best possible start in life*. The strategy has four main elements:

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

### Financial support for families with children

5.10 The Government is committed to helping families with children through the tax and benefit system. Its approach is based on two principles:

- providing financial support for all families with children, recognising the costs and responsibilities which come with parenthood; and
- offering more help to those who need it most, when they need it most. This includes families on lower incomes, and those with children under one.

5.11 Over the course of the last Parliament the Government introduced a range of measures to help provide decent family incomes, including:

- record increases in Child Benefit, with a 26 per cent real terms rise for the first child. Child Benefit is now worth £15.75 a week for the first child and £10.55 for subsequent children;
- the introduction of the Children's Tax Credit in April 2001 as a replacement for the Married Couple's Allowance. The Children's Tax Credit is worth up to £10.17 extra a week for around 4.6 million families;
- the introduction of the Working Families' Tax Credit (WFTC) which benefits nearly 1.3 million families – over 450,000 more than previously received Family Credit. On average, these families are now receiving £40 a week more under WFTC than 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.

**5.12** As described in Chapter 4, the Government has also taken action to improve the affordability, accessibility and quality of childcare, improving the choices faced by parents seeking to balance work and childcare responsibilities.

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

**5.13** The birth of a child places considerable financial pressure on families. Families on low incomes face particularly difficult and restricted choices about how to support their children in the early months.

**5.14** In the past, the tax and benefit systems failed to provide adequate support for people with very young children. Financial help has been insufficient and not available quickly enough after the birth of a child. To help new parents on low incomes, the Government is therefore introducing a range of measures, including:

- an increase in the Children's Tax Credit to £20.17 a week for families in the year of a child's birth from April 2002;
- an increase in the flat rate of Statutory Maternity Pay (SMP) and Maternity Allowance to £75 a week from April 2002 and then **to £100 a week (or 90 per cent of previous earnings if that is lower) from April 2003**. In addition, **the period of maternity pay will be extended, at this enhanced rate, from 18 to 26 weeks from April 2003**. Good maternity provision enables mothers to spend the crucial first months with their babies and eases the return to work afterwards;
- **granting working fathers the right to two weeks of paid paternity leave, paid at the same flat rate as SMP, from April 2003**. This will enable working fathers to spend more time with their partner and new child;
- **granting low-paid fathers access to Income Support for the duration of their paternity leave**. From April 2003, Income Support will be extended to low-paid fathers on paternity leave who are not entitled to statutory paternity pay. Those who do receive statutory paternity pay will also be able to claim Income Support if they are normally low paid. This will provide low-paid fathers with the level of benefit support available to parents taking parental leave;
- **introducing paid adoption leave from April 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 adoption leave. The other parent will be able to take two weeks' paid paternity leave;
- doubling the threshold for Small Employer Relief to £40,000 from April 2002, ensuring that around 60 per cent of all firms paying SMP each year can reclaim their costs in full, plus a percentage on top in compensation. **Small Employer Relief will also apply to statutory paternity and adoption pay from their introduction in April 2003**; and
- an increase in the Sure Start Maternity Grant to £500 from April 2002 – five times the level in 1997 – which will benefit over 200,000 families each year.

## New tax credits

**5.15** From April 2003 the Government is introducing a new system to support families, tackle child poverty and make work pay. The system will separate support for adults from support for the children in a family, while providing a common framework for assessing entitlement:

- **the Child Tax Credit**, will provide a single system of support, integrating all the existing, income-related elements of support for children; and
- **the Working Tax Credit**, discussed in detail in Chapter 4, will extend the principle of in-work support to those without children or a disability.

The two new tax credits are described in more detail in the accompanying Budget paper, *The Child and Working Tax Credits*<sup>1</sup>.

**The Child Tax Credit** **5.16** Income-related support for families is currently provided through several different instruments and is administered by different parts of government. Parents also receive different levels of financial assistance for children depending on whether they are in or out of work.

**5.17** The Child Tax Credit will provide a single, seamless system of income-related support for families with children. Building on the foundation of universal Child Benefit, it will bring together the assistance for children currently provided through the child elements of the WFTC, the Disabled Person's Tax Credit (DPTC), and Income Support or Jobseeker's Allowance, as well as the existing Children's Tax Credit. It will provide:

- 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 people 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, usually the mother, in line with Child Benefit;
- greater transparency, bringing together all income-related child payments into a single, payable tax credit, administered by the Inland Revenue;
- a common framework for assessment, so that all families are part of the same system and poorer families do not feel the stigma associated with the current forms of support;
- a less intrusive, annual system, under which families whose circumstances remain the same will only need to contact the Inland Revenue about tax credits once a year;
- a modern income test, which rewards and does not penalise saving, taking into account the income from capital rather than the capital itself; and
- a more responsive system, in which a family's tax credit award can be adjusted to reflect changes in a family's income and circumstances.

**5.18** Budget 2002 announces the rates and thresholds that will apply to the Child Tax Credit from April 2003. Full details of the rates and thresholds are provided in Chapter A of the Financial Statement and Budget Report and are summarised in Table 5.1.

<sup>1</sup> *The Child and Working Tax Credits: The Modernisation of Britain's Tax and Benefit System, No. 10*, HM Treasury and Inland Revenue, April 2002.

**5.19** To reduce further the numbers of children living in poverty, Budget 2002 **increases the child allowances in Income Support and Jobseeker's Allowance by £3.50 a week from October 2002**, aligning the rates for families with children in and out of work in advance of the Child Tax Credit in April 2003. In addition, **from April 2003, the rates of Child Benefit will rise in line with indexation to at least £16.05 and £10.75 respectively.**

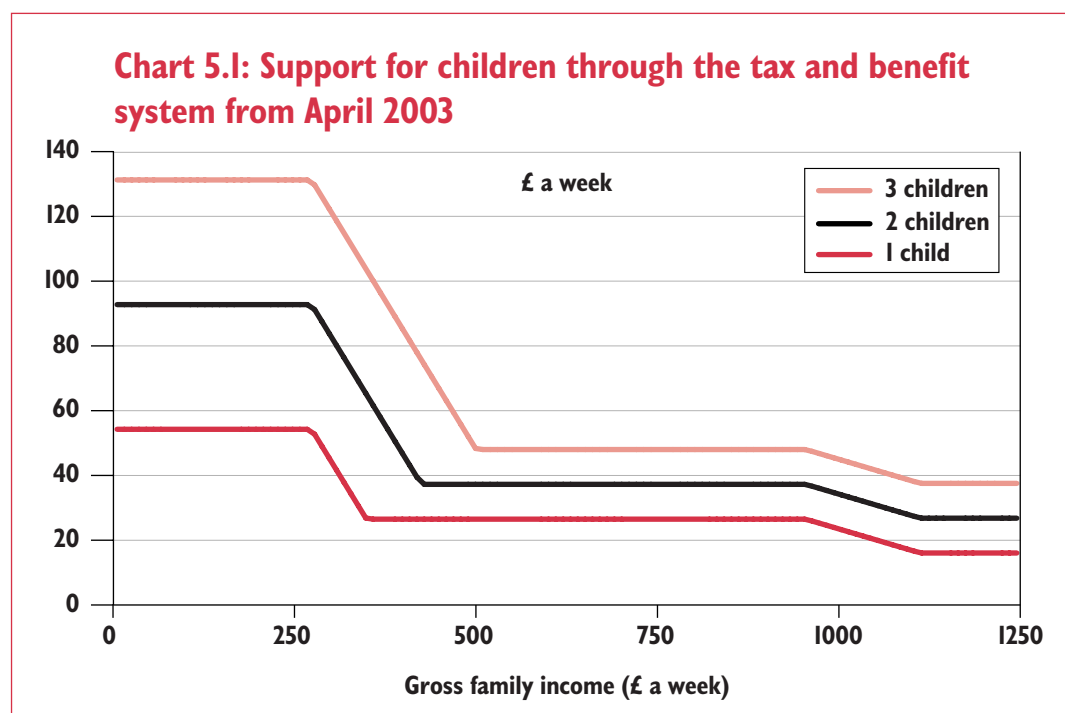
**Table 5.1: The principal elements of the Child Tax Credit and Child Benefit**

	2003-04 weekly amounts	
	First child	For each subsequent child
Child Benefit	£16.05	£10.75
Child Tax Credit		
– family element	£10.45	
– child element	£27.75	£27.75
Maximum support	£54.25	£38.50

**5.20** As shown in Table 5.1, the Child Tax Credit will build further on the progress made so far. Paid on top of Child Benefit, the Child Tax Credit will provide:

- a family element of £10.45 a week for all families with incomes of less than £50,000, gradually withdrawn for families with incomes above this amount; and
- a child element of £27.75 a week for each child or young person for families with incomes of up to £13,000 a year, gradually withdrawn for families with higher incomes. From April 2004, the child element will be uprated at least in line with earnings rather than prices for the rest of the Parliament.

**5.21** Chart 5.1 shows the level of support that families will receive from the Child Tax Credit and Child Benefit from April 2003. While all families receive some support, more financial help is offered to those who need it most.



**5.22** Table 5.2 shows the weekly levels of support that the Child Tax Credit and Child Benefit will guarantee families from April 2003.

**Table 5.2: Guaranteed levels of support for families from April 2003**

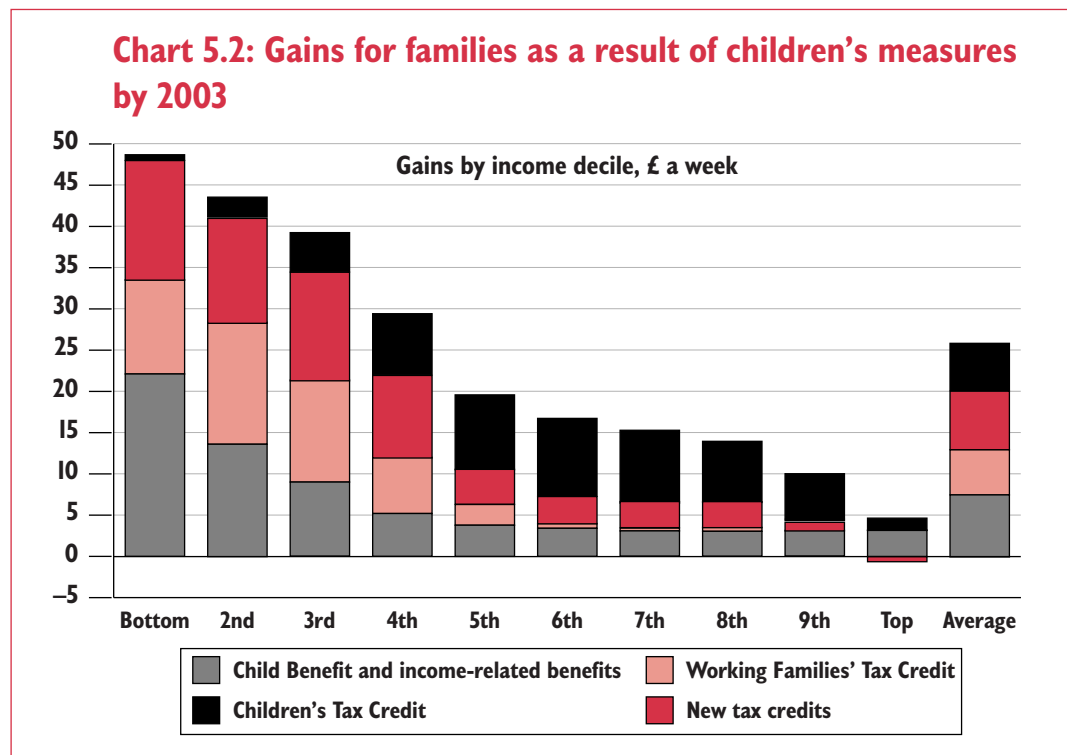
Annual family income	less than £13,000	less than £50,000	All families
Proportion of families (per cent)	25	85	100
1 child	£54.25	£26.50	£16.05
2 children	£92.75	£37.25	£26.80
3 children	£131.25	£48.00	£37.55

### Effects of measures to increase support for families with children

**5.23** As a result of the Government's personal tax and benefit reforms since 1997, including the changes to national insurance contributions and the income tax personal allowance announced in this Budget, by April 2003:

- families with children will be, on average, £1,200 a year better off, while those in the poorest fifth of the population will be, on average, over £2,400 a year better off in real terms;
- a single-earner family with two young children on half average earnings of £14,100 will be £3,490 a year better off in real terms; and
- a single-earner family on average earnings of £28,200 and with two children will be £310 a year better off in real terms.

**5.24** Chart 5.2 shows the impact of the Government's reforms since 1997, including the introduction of the new tax credits, by decile on families with children.



### Box 5.1: The Child Tax Credit and the child poverty ambition

The Government's long-term goal is to halve child poverty by 2010 and to abolish it within a generation. The new Child Tax Credit is central to the Government's strategy for achieving this objective.

The Government assesses the impact of its tax and benefit policies on low-income households compared with what would otherwise have happened if the Government had done no more than index 1997 policies to prices<sup>1</sup>. This enables the Government to estimate the full impact of Budget measures, aside from wider economic and demographic changes. The figures below comprise both:

- a reduction in the number of children in relative poverty; and
- the number of children who would otherwise have fallen into relative poverty, as median real income and earnings rise.

#### Effects of personal tax and benefit reforms announced since 1997

	50 per cent of median income	60 per cent of median income	70 per cent of median income
Number of children in households lifted above low-income thresholds, compared with a 1997 indexed regime	2.2 million	1.5 million	0.8 million

*Note: Estimates are for the full year impact when all measures up to 2003-04 have been introduced. Incomes are measured after housing costs and include the self-employed. Thresholds are on a contemporary year basis.*

These assessments are complemented by a target which reflects all economic and demographic changes: the Public Service Agreement set in the 2000 Spending Review, to reduce the number of children in contemporary low-income households by a quarter by 2004 compared with 1998-99. This requires action to ensure that the benefits of reforms introduced during the last Parliament are sustained as the economy grows, as well as additional steps to raise low incomes. By 2000-01 the number of children in households below 60 per cent of contemporary median income had fallen by 0.3 million compared with 1998-99 and by 0.5 million compared with 1996-97, even though the 2000-01 figures do not reflect the full effect of all measures announced to date.

Against an absolute line, there have been significant real gains for low-income families, with the number of children below the 1996-97 60 per cent median income line, fixed in real terms, falling by 1.4 million between 1996-97 and 2000-01.

<sup>1</sup> The methodology is similar to that used in independent research. See, for example, David Piachaud and Holly Sutherland, *Journal of Social Policy*, Volume 30, 2001.

**5.25** The Government's annual report on poverty and social exclusion *Opportunity for All*<sup>2</sup> monitors progress against a range of indicators, including family income and services. The Department for Work and Pensions will be publishing a consultation document on how best to build on the Government's existing indicators to measure child poverty in the long term, seeking views on a range of approaches proposed by academics and poverty experts from the UK and overseas.

<sup>2</sup> *Opportunity for All: Making Progress*, Cm5260, September 2001.

## Public Services to tackle child poverty

**5.26** Strong and dependable public services are essential to tackle both the underlying causes of poverty and deprivation and their effects. As described in Chapter 6, the Government is committed to building world class public services throughout the country and is delivering significant and sustained increases in investment in priority areas, including health, education and housing. This section explains how the Government is providing targeted public services to tackle child poverty.

**Sure Start 5.27** Sure Start aims to promote the physical, intellectual and social development of pre-school children. Managed through local partnerships between parents, private and voluntary organisations and statutory services, over 430 Sure Start programmes have now been announced, of which more than 250 are operational. By March 2004, 500 programmes will be operating across the country, reaching 400,000 children and around one third of young children living in poverty.

**Children's Fund 5.28** The 2000 Spending Review announced £450 million for a new Children's Fund over the three years to 2003-04. The Children's Fund has two elements – the Prevention Fund and the Local Network Fund. The Prevention Fund is being used to support Children's Fund partnerships which provide improved, coordinated local services for children at risk of social exclusion and their families. Some 77 Children's Fund partnerships have now received full or partial approval for their plans and the first grant payments were made in October 2001. The partnerships will be rolled out across the country by 2003-04.

**5.29** The Local Network Fund – £70 million over three years – is being distributed directly to community groups through a network of local funds to support projects for children in local communities. These local funds are already operating in 34 areas and a further 13 areas will begin to benefit from April 2003, ensuring that funds will be available in all Local Network areas.

**Education Maintenance Allowances 5.30** Education is a crucial influence on a child's life chances. A decent education builds employment opportunity and enhances the well-being of people throughout their lives. Compared with their peers, those 16 to 18 year olds who do not participate in education, training or employment are, as adults, more likely to earn less in work, to experience depression, to be in poor physical health and to have a criminal record; all acting as barriers to employment.

**5.31** In recognition of the financial barriers which prevent some young people continuing in education, the Government has introduced Education Maintenance Allowances (EMAs) to enable young people from poorer families to pursue education beyond the age of 16. EMAs are now being piloted in one third of Local Education Authorities.

**5.32** Initial evidence from the pilot programme suggests that EMAs are delivering positive results. 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. The impact appears to have been greatest among young men.

**5.33** While these early signs are encouraging, success can only be determined by considering the impact of EMAs on retention and achievement. The Government will continue to review the performance of EMAs over the longer term, as reiterated in the 2001 Pre-Budget Report, and will consider whether EMAs should eventually replace Child Benefit for young people over 16 years of age.

**Box 5.2: Women and welfare reform**

The Government is determined to create opportunities for all. This includes helping women into work, supporting mothers and providing security for older women, through:

- the new tax credits, which will improve choices for mothers, supporting couples with one earner and improving work incentives for second earners. The Child Tax Credit and childcare tax credit element of the Working Tax Credit will be paid to the main carer – usually the mother. Couples with children who both work will be able to combine their hours to get the 30 hour premium in the Working Tax Credit;
- enhanced maternity pay and leave, and the introduction of paid paternity leave, which will provide extra support for parents after the birth of their child, while enabling them to maintain attachment to the labour market;
- the childcare tax credit, which provides significant extra help for parents combining caring responsibilities with paid work, and the National Childcare Strategy which will have created additional places for one million children by March 2004. Budget 2002 announces support for parents using approved childcare in their own home and the introduction of dedicated childcare coordinators in every Jobcentre Plus district;
- the National Minimum Wage, which disproportionately benefits woman, and will be increased to £4.20 an hour in October 2002 for workers aged 22 and over; and
- the Pension Credit, which is specifically designed to target extra help on those with low and modest incomes or savings. Many of the poorest pensioners who stand to gain most from the Pension Credit are women; two-thirds of people entitled to the Pension Credit will be women.

## FAIRNESS FOR PEOPLE WITH DISABILITIES

**5.34** The Government is determined to increase opportunities for people with disabilities to lead independent and fulfilling lives. The New Deal for disabled people (NDDP) is helping those who can and wish to work make a successful return to employment. From April 2003, the Working Tax Credit will continue to increase the gains to work for people with disabilities, replacing the existing help in the Disabled Person's Tax Credit. Both of these measures are described in more detail in Chapter 4.

**5.35** The Government believes that people with disabilities who are unable to work should have financial security and support. The Disability Income Guarantee, introduced in April 2001, is ensuring that severely disabled people under 60 years of age and on income-related benefits now receive a guaranteed minimum income of at least £144.45 a week for single people, and £189.95 a week for couples. Reforms to Incapacity Benefit have also provided up to £28.10 a week extra for people who were disabled before the age of 20.

### Support for families with disabled children

**5.36** In recognition of the fact that families with disabled children often need extra help, the disabled child premium was increased in April 2002 by £5 a week on top of the normal uprating, to a new rate of £35.50. **In April 2003, it will rise again by £5 above inflation – to more than £40 a week on top of basic Income Support or tax credits.** This will benefit around 80,000 children and provide further help for families on low incomes, both in and out of work, with disabled children.

**Support for people with high care needs** **5.37** To help severely disabled people with high care needs, entitlement to the Independent Living Fund has also been improved. From April 2002, the earnings of disabled people and their partners have been disregarded completely, worth an average of £130 a week to those families. In addition, the capital limits have been raised, extending help to people with savings of up to £18,500.

**5.38** Delivering fairness for disabled people also requires action beyond financial support. Discrimination, in the workplace and beyond, must also be prevented. Building on the establishment of the Disability Rights Commission in April 2000, the Government last year consulted on proposals to strengthen the Disability Discrimination Act (DDA)<sup>3</sup>. **The Government is also currently consulting on how to give force to the provisions of the Employment Directive<sup>4</sup>, and proposes to make changes to the DDA in 2004.**

## FAIRNESS FOR PENSIONERS

**5.39** 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:

- offering extra financial support to 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 minimum increase in the annual basic state pension and providing additional help with the costs of winter fuel; 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

**5.40** The Government's first priority has been to help those in greatest need. The pattern of pensioner incomes today reflects that of the working age population. As with earners, the richest fifth of pensioners are now three times better off than the poorest fifth.

**5.41** To ensure that more pensioners are able to share in rising national prosperity, the Government has reformed Income Support for pensioners, introducing a more generous Minimum Income Guarantee (MIG). **The level of the MIG will be raised in line with earnings throughout this Parliament.** Over 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 in April 2002, and the Pension Credit from 2003, will encourage more people to claim the support to which they are entitled.

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

<sup>4</sup> *Towards Equality and Diversity: Implementing the Race and Employment Directives*, Department for Trade and Industry.

## Security for all pensioners

**5.42** The Government is also committed to ensuring that all pensioners have security in retirement, not just the poorest. As well as providing targeted support to those who need it most, the Government has therefore:

- increased the basic state pension by more than inflation in each of the last two years. In April 2002, the full basic state pension was increased by £3 to £75.50 a week for single pensioners, and by £4.80 to £120.70 a week for couples;
- **guaranteed that the full annual basic state pension will rise by at least £100 for a single pensioner and £160 for pensioner couples in 2003-04. In future years the basic state pension will rise each year by 2.5 per cent or the increase in the September Retail Prices Index, whichever is higher;**
- introduced winter fuel payments, paid to around 11 million people aged 60 and over each winter. As announced in the Pre-Budget Report, **winter fuel payments will be maintained at £200 each year for the remainder of this Parliament;** and
- introduced free TV licences for households with someone aged 75 or over and free eye tests for all those 60 and over, benefiting pensioners, regardless of their income.

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

**5.43** The Government believes that there is more to do to tackle pensioner poverty and to 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.

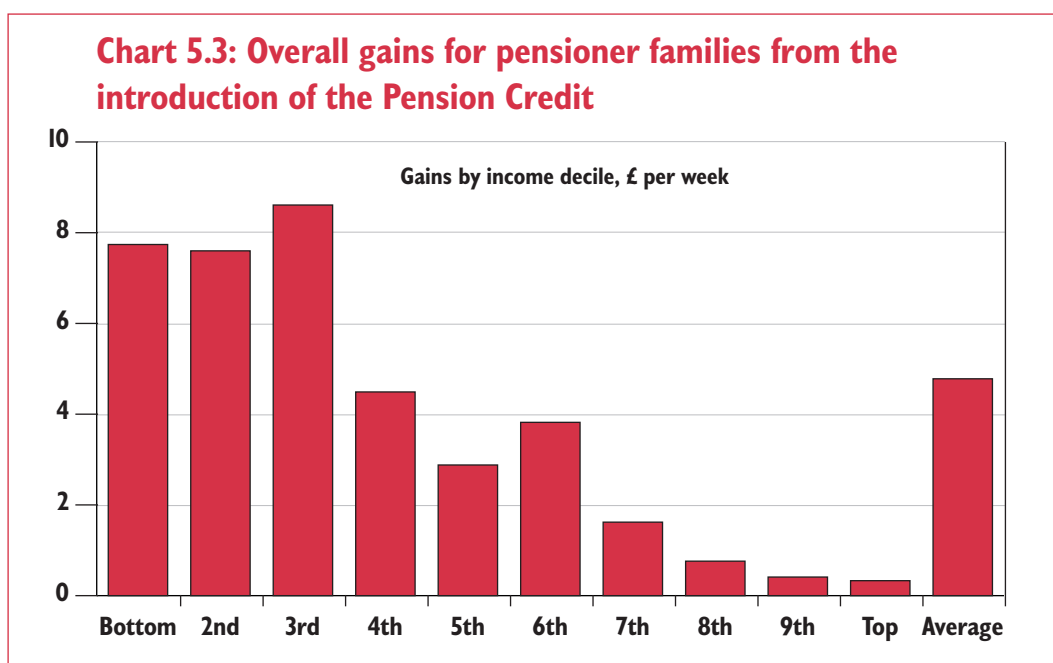
**5.44** As announced in the Pre-Budget Report, **the Government is introducing a new Pension Credit from 2003 at a cost of £2 billion in the first full year.** The Pension Credit represents a fundamental reform of the welfare system. It will bring pensioners' income up to a guaranteed minimum entitlement and ensure that millions of pensioners who have saved modest amounts – through an occupational scheme, a stakeholder pension, the State Second Pension or another means – will gain from having done so and be rewarded for their thrift and effort. In addition, the current MIG capital regime will be revised and the MIG's intrusive weekly means-test abolished for the vast majority of pensioners. People on Housing Benefit and Council Tax Benefit will also be protected to ensure that they receive the full benefit of the Pension Credit. The Pension Service will make it easier for pensioners to claim all their entitlements.

**5.45** The guaranteed minimum entitlement in the Pension Credit will be linked to the growth in average earnings throughout this Parliament. As a result, all pensioners receiving the Credit will gain, year-on-year, a larger increase in support from the state than they would receive from an earnings link in the basic state pension. The poorest third of pensioners will be on average over £250 a year better off following the introduction of the Pension Credit than they would have been if the equivalent amount had been spent on raising the basic state pension.

**5.46** Based on current assumptions about future growth in prices and earnings, and taking into account the further changes the Government has announced it will 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;
- extend support to around half of all pensioner households; and
- provide on average around £400 extra a year to eligible pensioner households, with some gaining up to £1,000 a year.

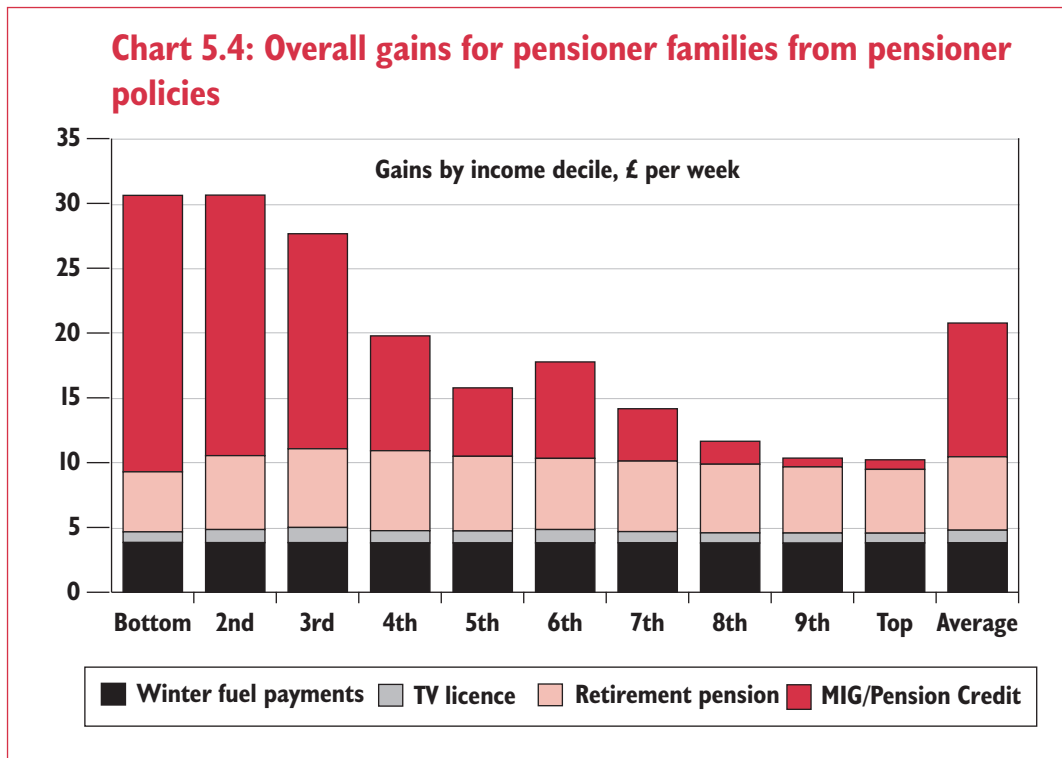
**5.47** Chart 5.3 shows the average gains by income decile in current prices as a result of the introduction of the Pension Credit.



**5.48** Taken together, these measures form a comprehensive package of support to tackle pensioner poverty and help all pensioners. Compared with the 1997 system, as a result of the Government's measures including the Pension Credit, on average:

- pensioner households will be over £1,150 a year better off in real terms – around £22.50 extra a week; and
- the poorest third of pensioner households will have gained over £1,500 a year in real terms.

**5.49** Chart 5.4 shows the distributional impact, in current prices, of the Government's pensioner policies up to Budget 2002, including the Pension Credit.



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

### Support for pensioners who pay tax

**5.51** 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 older taxpayers too. Most pensioners have no income tax to pay. But for those who do, **the age-related personal allowances will be raised in 2003-04 for those aged 65 to 74 to £6,610 and for those aged 75 or more by £240 a year more than the amount which would result from statutory indexation.** This will ensure that no pensioner aged 65 or over will pay tax on income of less than £127 a week. **Subsequently, the age-related allowances will be raised at least in line with earnings rather than prices for the remainder of this Parliament.**

## SUPPORTING SAVING

**5.52** The Government recognises the value of saving and asset-ownership in providing people with security, comfort in retirement and long-term independence and opportunity. To address the problems that may have discouraged saving in the past, it is working to improve the environment for saving, increase incentives to save, and ensure that people have the information and skills they need to make the right saving choices.

## Saving for retirement

**5.53** Helping people provide for financial security in old age – protecting future pensioners from the poverty and inequality that many of today’s pensioners have had to bear – is a key aim of the Government’s savings strategy. The Government is therefore providing today’s workers with the opportunity to build up a decent second pension by the time they retire.

**State Second Pension** **5.54** The State Earnings Related Pension Scheme (SERPS) provides a second pension for those earning enough to pay national insurance contributions and who are not contracted out into an occupational or personal pension scheme. SERPS reform will provide more support in retirement than in the past for moderate and low-income 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.

**Stakeholder pensions** **5.55** In addition, the launch of stakeholder pensions in April 2001 has extended the benefits of pension saving to previously excluded groups. Since 8 October 2001, employers with five or more employees that do not offer an employer’s pension to all employees have been required to offer access to a stakeholder pension to eligible employees. This has made stakeholder pensions available through the workplace to the majority of those currently without a private pension.

**5.56** A year after their introduction, stakeholder pensions have become established as a viable financial product. With over 50 stakeholder pension schemes now registered, the Government remains on track to meet its target of making stakeholder pensions widely available. By the end of February 2002, 320,000 employers had made stakeholder pension schemes available to their employees and over 750,000 individual stakeholder pensions had been sold.<sup>5</sup> Many of the schemes exceed the minimum requirements set by the Government, and low stakeholder pension charges have helped to exert a general downward pressure on pension charges.

<sup>5</sup> Figures up to 28 February 2002 calculated by the Association of British Insurers (ABI), 30 March 2002.

**Box 5.3: Private pensions**

Saving for a pension should be a key consideration for most individuals throughout their working lives. The need to save is much greater than in the past. People are living longer, so pensions have to go further than in previous generations. On average a 65 year old man retiring now can expect to live another 16 years – four years longer than his counterpart in 1961. In the last few decades there has also been a trend towards earlier retirement, with many people ending their working lives in their 50s. For most people, however, it may not be realistic to save enough in perhaps 30 years of work to support a good standard of living during another 30 years of retirement. Government, employers and individuals all need to look seriously at finding ways of encouraging people to save more of their earnings for retirement and extending working lives.

A number of employers have recently shifted from defined benefit to defined contribution pension schemes. Each has its advantages over the other. Depending on their circumstances, businesses and their employees will have reason to prefer either arrangement. However, the Government is concerned that a number of employers have taken the opportunity to reduce their pension contributions.

The Government's concern is to raise the level of saving for pensions by whatever means is most appropriate. Employees themselves have a responsibility to ensure that they are well informed about their own pension provision and the Government has introduced Combined Pension Forecasts to assist with this. Around 15 million employees should have received forecasts by April 2006, helping more people to decide whether they need to be saving more.

The Government has also set up three coordinated reviews, led by Alan Pickering, the Inland Revenue and Ron Sandler, to examine different aspects of pension provision. Respectively, these reviews are looking at:

- simplifying the regulatory regime for private pensions;
- simplifying the taxation of occupational pensions, reducing administrative burdens and making pension provision easier to understand; and
- the operation of the market for long-term retail savings, including personal pensions.

These reviews will produce proposals to encourage pension saving, reducing burdens on employers and providers, and to ensure consumers are well served by the long term savings market. The Government will consult on these proposals later this year. The aim will be to reduce complex regulation, improve information and education and consider what action the Government and employers might take to encourage employees to save towards their retirement. This will be an important step towards securing a decent standard of living in retirement for an ageing population.

**Annuities 5.57** Annuities continue to provide a financially efficient and secure means of turning pension capital saved through defined contribution pension arrangements into income that lasts for the whole of an individual's retirement. As announced in the Pre-Budget Report, the Government has recently consulted on proposals to modernise the provision of annuities, in line with the principles of:

- where possible, increasing the level of retirement income that people can expect to gain through an annuity;

- ensuring that funds saved with the benefit of tax relief are used to provide a secure income in retirement and do not become a tax-favoured savings vehicle for non-pension purposes or a source of funding for non-retirement income; and
- contributing to the Government's aim of encouraging people to save more for their own retirement.

**5.58** Following the Government's consultation exercise, it **plans to increase the choice available for consumers in the annuities market**. In particular, the Government will:

- work with providers of annuities to increase flexibility by allowing people who already have an annuity to change the terms of their contract with their existing provider - for example, from a flat annuity to an indexed annuity. This should provide extra flexibility for pensioners whose personal circumstances or preferences change; and
- consistent with the principles outlined above, bring forward powers to enable new generic kinds of annuity to be used to turn pension savings into retirement income, making it easier for companies to create innovative new products - for example, limited period annuities.

**5.59** In addition, the Financial Services Authority (FSA) will shortly announce the results of last year's consultation on proposals to require pension providers to inform their personal pension customers as they approach retirement of their entitlement to purchase annuities from a different provider. The Government is continuing to work with the FSA to ensure that the market works effectively for individuals; in particular, that people have all the information and advice they need, delivered through the most effective channels, at the right time, to make the correct choice for them.

### Improving incentives to save

**5.60** The Government has consulted widely on two new targeted policies – the Saving Gateway and the Child Trust Fund – designed to extend the benefits of saving and asset-ownership, especially to lower-income earners. Initial consultation results and detailed proposals for further consultation were set out in *Delivering Saving and Assets*, published alongside the 2001 Pre-Budget Report.

**The 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 financial incentive to develop a regular saving habit and provide tailored financial information to inform saving choices.

**5.62** As announced in the Pre-Budget Report, **the Government will shortly be launching a number of Saving Gateway pilot projects**. The pilots will be run in conjunction with the Community Finance and Learning Initiative (CFLI), led by the Department for Education and Skills. Four CFLI sites have been selected in which to run the pilots, in Gorton, Tower Hamlets, Cumbria and Cambridgeshire. The Government has also reached agreement with Halifax plc to act as a partner in the pilots, providing the services of its branches, staff and account systems in the pilot areas. The outreach and training functions of the CFLI are currently up and running in each pilot area, and the pilots themselves are expected to begin in August 2002, lasting for two-and-a-half years including evaluation.

**5.63** Further development of the Saving Gateway, including the appropriate level of the match rate, the criteria to be used to determine eligibility, and the interaction between financial education and the account, will be made in the context of findings from the pilots, which have been designed to provide a regular stream of information and data from their establishment through to their closure.

**The Child Trust Fund** **5.64** As well as supporting saving, the Government is committed to spreading the benefits of asset-ownership. 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. *Delivering Saving and Assets* consulted on two detailed proposals for delivering the CTF:

- **an open-market model**, in which the CTF would be delivered by financial service providers, like Individual Savings Accounts (ISAs) and stakeholder pensions; and
- **a licensed-provider approach**, with a more limited number of providers offering the CTF in partnership with the Government.

**5.65** The consultation period has now ended and the Government is examining the responses received. It will develop further proposals taking into account the consultation results, associated policy issues and the conclusions of the 2002 Spending Review. The Government expects to be able to provide an update on aspects of its proposals in the run-up to Budget 2003, and will announce further decisions consistent with normal practice involving decisions relating to Annually Managed Expenditure.

**Individual Savings Accounts** **5.66** Individual Savings Accounts (ISAs), the Government's primary vehicle for tax-advantaged saving, continue to be extremely popular. Since their launch in April 1999, more than 12 million investors – around one in four adults – have contributed over £78 billion to ISAs. In the first three quarters of 2001-02, subscriptions to mini-cash ISAs grew significantly year-on-year, rising by 36 per cent to £12.5 billion. This increase more than offset the decline in subscriptions to Maxi ISAs probably caused by the uncertain investment climate – overall ISA subscriptions rose by nearly £500 million over the same period the year before. By 2006, savers will be receiving around £800 million a year more in tax relief than if Personal Equity Plans (PEPs) and Tax-Exempt Special Savings Accounts (TESSAs) had remained.

## STRENGTHENING COMMUNITY LIFE

**5.67** Conditions in Britain's most disadvantaged communities are unacceptably poor. Those living in poorer neighbourhoods must often cope with a run-down physical environment, limited opportunities and the worst public services. Chapter 3 describes the steps the Government is taking to promote enterprise and investment in disadvantaged communities and Chapter 7 sets out the Government's approach to urban regeneration. This section describes the additional steps the Government is taking to build stronger communities and tackle social exclusion across the country.

### Public services to tackle social exclusion

**Neighbourhood Renewal** **5.68** The worst incidences of people living in poverty and social exclusion are concentrated in poor neighbourhoods. These areas suffer from many sources of deprivation – low levels of employment, high crime rates, poor health, low levels of educational attainment and poor quality housing. Public services can help solve some of these problems, but in the past they

have consistently failed to deliver lasting improvements. The Government is therefore working to ensure that public services deliver improved outcomes for those living in the most deprived neighbourhoods.

**5.69** As part of the National Strategy for Neighbourhood Renewal the Government is targeting extra resources on those neighbourhoods that fall furthest behind the rest of the country. The 2000 Spending Review set specific Public Service Agreement ‘floor targets’ to ensure that everybody, wherever they live, can expect decent standards of public service provision. In addition, the Neighbourhood Renewal Fund is providing £900 million over three years to the 88 most deprived areas in England, to help to deliver service improvements in the poorest neighbourhoods.

**5.70** At a local level, neighbourhood renewal is overseen by Local Strategic Partnerships (LSPs) which bring together public, private, community and voluntary sector partners to coordinate solutions to tackle social exclusion. In recognition of the fact that social exclusion occurs more widely in both urban and rural areas, LSPs are now being set up across England.

#### **Box 5.4: The New Deal for Communities**

As a test-bed for new ideas in neighbourhood renewal, the New Deal for Communities (NDC) is investing almost £2 billion over 10 years in 39 of the most deprived neighbourhoods around the country.

Since the launch of the programme in 1998, NDC partnerships have become well established and many local projects are already delivering results. Examples of the NDC in action include a community-driven crime fighting initiative in East Manchester which helped to deliver a 25 per cent drop in local crime in its first year of operation, and a reorganisation of street-cleaning delivery in Bristol which ensured that the NDC area provided the most efficient cleaning service in the city. As one element of the National Strategy for Neighbourhood Renewal, the NDC plays an important role in improving understanding of ‘what works’ in neighbourhood renewal and in spreading best practice throughout LSPs across the country.

### **Strong communities and the voluntary sector**

#### **Community amateur sports clubs**

**5.71** Community amateur sports clubs (CASCs) play a valuable role in promoting the health and cohesion of their local communities. The Government encourages CASCs to apply for charitable status, which offers the full range of charity tax reliefs, 80 per cent mandatory business rate relief as well as additional funding opportunities. For those CASCs that cannot or do not wish to apply for charitable status, Budget 2002 introduces **a package of tax measures giving CASCs access to tax reliefs on income and donations, similar to those available to charities** and as set out in the Government’s November 2001 consultation document<sup>6</sup>. The Government will also allocate **£20 million from the Capital Modernisation Fund to provide new or refurbished community sports facilities**. The Government will continue to have a constructive dialogue with sport to assist further in its development.

<sup>6</sup> *Promoting Sport in the Community*, HM Treasury, November 2001.

**Charitable donations 5.72** The tax rules for gifts to charity were reformed in Budget 2000 to improve incentives for giving and to make the system work better for charities themselves. Budget 2002 takes further steps to encourage donations, by announcing new plans to **enable taxpayers to direct tax repayments to nominated charities, and allowing higher rate taxpayers to claim relief for Gift Aid donations immediately when they make their tax return.** The Government will continue to consider ways of encouraging charitable giving. Budget 2002 also introduces **a new tax relief for gifts to charity of land or buildings,** benefiting all charities that accept a freehold or leasehold property.

**Charity buildings 5.73** To help charities use their buildings in a more flexible and cost effective way, and to encourage the creation of more residential accommodation for some of the most vulnerable people in society, Budget 2002 introduces a range of **VAT reliefs for charity buildings, including residential communal homes.**

## A MODERN AND FAIR TAX SYSTEM

**5.74** The Government is committed to creating a modern and fair tax system which encourages work, saving and investment, raises sufficient revenue to pay for investment in public services, and in which everyone – households and businesses alike – pays their fair share. The tax system must be modernised so as to keep pace with developments in business practice and the global economy and ensure that individual tax regimes continue to meet objectives. Equally, loopholes, which give scope for avoidance, must be closed so that the burden of tax does not fall unfairly on compliant taxpayers. In addition to the measures described in previous chapters, this Budget takes forward the tax modernising agenda in a number of areas.

### Modernising stamp duty

**5.75** Budget 2002 introduces reforms to **close loopholes in stamp duty on property** to ensure that the charge applies fairly to all relevant transactions in UK land and buildings, and to pave the way for the introduction of paperless electronic conveyancing. The reforms will mainly affect commercial transactions.

**5.76** The existing stamp duty regime allows many large commercial transactions to take place without incurring a stamp duty charge. The Government is taking immediate action to discourage techniques used to side-step the current charge. A stamp duty charge will be triggered by a contract for all deals over £10 million. Group relief and de-merger relief will in future be recovered when subsidiaries are sold within two years of acquiring an interest in property from another group company. The penalty regime is also to be amended so that documents executed outside the UK no longer receive any advantage.

**5.77** The reformed regime, to be introduced late next year, will create a mandatory tax to ensure that deals which are currently structured to side-step the charge are subject to stamp duty in future. In the longer term, electronic conveyancing should facilitate quicker and easier residential purchases and include the collection of stamp duty electronically.

**Lease duty 5.78** Stamp duty as it applies to the grant of new leases (known as “lease duty”) will also be reviewed as part of the reform proposals so that it better reflects modern commercial practice, and to bring the charge into line with stamp duty on sales of equivalent valued property.

## Taxation of foreign companies' branches

**5.79** A weakness in the UK tax system means that some large, profitable foreign companies operating in the UK through branches for commercial reasons pay little or no corporation tax. Recent work by the Organisation for Economic Cooperation and Development (OECD) has shown that this puts the UK out of line with international practice among major industrialised countries. Budget 2002 therefore **takes steps to modernise the taxation of foreign companies operating in the UK through branches.**

**5.80** From 1 January 2003, capital will be attributed to a UK branch for tax purposes, based on the amount of capital that would be needed if the branch were an independent company. This will mean that branches pay a fair share of corporation tax, reflecting the profits they make from activities carried out in the UK. The reform will ensure a more level playing field between UK-based banks and their foreign competitors, bringing the UK closer into line with established international practice. This builds on existing rules in the UK tax system that already apply to foreign companies operating in the UK through subsidiaries. The Government will consult on the technical details of the legislation.

## North Sea tax regime

**5.81** The Government is committed to maintaining an active UK oil and gas industry and to promoting future development of the nation's oil and gas reserves. However, the North Sea fiscal regime currently fails to strike the right balance between promoting investment and taking a fair share of revenue derived from a national resource, and is therefore in need of reform.

**5.82** Budget 2002 introduces **important changes to the North Sea tax regime. With effect from Budget day, companies will pay a 10 per cent supplementary charge on North Sea profits and will receive a 100 per cent first year allowance for capital expenditure in the North Sea.** These changes will ensure a regime that raises a fair share of revenue and encourages long-term investment, establishing a more secure basis on which companies can plan for the future. Subject to consultation with the industry, the Government intends to abolish Royalty.

## Residence and domicile

**5.83** The Government is reviewing the residence and domicile rules as they affect the tax liabilities of individuals. The Government believes that modernisation of these rules needs to be based on clear principles: the rules should be fair, clear, easy to operate, and support the competitiveness of the British economy. As this is a complex area, all those affected should have the opportunity to contribute to the discussion. The Government will report on this issue in time for the Pre-Budget Report.

## Betting

**The Gross Profits Tax** **5.84** In October 2001, the Government abolished the tax on betting stakes and replaced it with a 15 per cent tax on bookmakers' gross profits, making it possible for bookmakers to remove the deductions charged to punters, and grow their domestic and international business from a UK base. As a result of these reforms the largest bookmakers have relocated all their offshore operations to the UK, creating more than 2,000 new jobs in their high-street shops and call centres. Average turnover has increased by around 30 per cent, and revenue receipts are on target to match and exceed projected revenue streams under the old system.

**Pools betting** **5.85** As announced in the Pre-Budget Report, the Government is **abolishing the current pools betting duty and replacing it with a 15 per cent tax on pools companies' gross profits**. As a result of this reform, which took effect from 1 April 2002, the leading pools companies have agreed to extend their current funding of sport and the arts until April 2004. The Government has also abolished the tax liability on charities and sports clubs running smaller pools-based competitions.

**5.86** As the next step in these reforms, the Government will be considering the scope to abolish the tax on bingo stakes and replace it with a gross profits tax on bingo companies.

## Modernising VAT

**VAT and museums** **5.87** Budget 2001 announced the introduction of a new scheme to refund the main national museums and galleries the VAT they incur on their purchases, thereby removing the barrier which was preventing those museums and galleries from moving over to free admission. As a result of this scheme, those institutions which had been charging for admission have now moved over to free entry, with many seeing their visitor numbers double as a result.

## Alcohol

**5.88** Since 1997, the Government has taken consistent steps to deliver a fairer balance in the burden of taxation falling on different alcoholic drinks and different types of drink-producers. Budget 2002 introduces a further package of measures to increase the fairness of the alcohol duty regime:

- the rate of **duty on spirits will be frozen** for the fifth Budget in succession, equivalent to a cut of 12 pence per bottle in real terms;
- the rates of **duty on wine and beer produced by larger brewers will be frozen** for the second Budget in succession;
- **reduced rates of duty worth up to £40 per barrel will be introduced on the beer produced by the UK's traditional small brewing industry**, providing savings of up to 50 per cent for each brewer, helping them to compete more effectively; and
- **spirits-based coolers**, consumption of which has increased rapidly in recent years and which have, until now, been taxed at a concessionary low rate, **will have their duty brought into line with spirits**.

**5.89** As a result of the duty freezes in the last five Budgets, this is now the longest period since the 1950s during which the duty on spirits has not risen, and the price of a bottle of spirits is now 73 pence lower than it otherwise would have been.

## Tobacco

**5.90** 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 help encourage existing smokers to smoke less or quit and discourage younger people from taking up the habit. Maintaining the real price of cigarettes and tobacco protects these vital health objectives. **Tobacco duty will therefore be increased in line with inflation from Budget day**, adding 6 pence to the price of an average packet of cigarettes.

## Tackling tax abuse

### Tackling tobacco smuggling

**5.91** Like other types of smuggling and fraud, tobacco smuggling undermines honest retailers, involves widespread and serious criminality, and drains government revenue. By providing an unregulated supply of cheap tobacco, tobacco smuggling also undermines the Government's efforts to cut smoking addiction. Stemming this supply increases the average price of tobacco and helps to protect these health objectives.

**5.92** In the 2001 Pre-Budget Report, the Government reported encouraging results from the first year of its *Tackling Tobacco Smuggling* strategy. In 2000-01, more than 2.8 billion cigarettes destined for the UK market were seized and dozens of organised smuggling gangs broken up. HM Customs and Excise met their key target for 2000-01 to hold the illicit share of the UK cigarette market to 21 per cent, and remain on track to slow, stop and reverse the growth in tobacco smuggling by 2003.

### Cross-Channel smuggling

**5.93** Good results have also been achieved in tackling cross-Channel smuggling of both alcohol and tobacco in 2000-01. Overall revenue losses from cross-Channel smuggling fell by 76 per cent in 2000-01 – well in excess of the Government's 10 per cent target. More than 10,000 vehicles used by smugglers were also seized and 56 organised smuggling gangs were broken up.

### Tackling indirect tax fraud

**5.94** The Government set out the strategic principles underpinning its approach to fraud in *Tackling Indirect Tax Fraud*, published alongside the 2001 Pre-Budget Report. The paper showed how the effectiveness of the Government's approach had been demonstrated by the *Tackling Tobacco Smuggling* strategy, described the steps being taken to tackle fraud in other areas, and set out a number of proposals for consultation.

**5.95** In the wake of this consultation, the Government will now take further immediate steps to improve the effectiveness of its efforts to tackle indirect tax fraud, including the **introduction of a comprehensive strategy to tackle the rising problem of oils fraud** and the **agreement of a joint programme of cooperation with the spirits industry to trace and track illicit consignments of spirits**.

**5.96** The Government will set out further details of its strategies to tackle indirect tax fraud and improve business compliance, including any resource implications, in the context of the 2002 Spending Review.

**Tackling unfair tax avoidance** 5.97 Left unchecked, schemes and devices designed to avoid tax can increase the burdens falling on the majority of ordinary taxpayers, undermine the stability of the public finances, and put other businesses at a competitive disadvantage. In addition to tackling fraud and smuggling, **the Government is therefore taking a number of steps to tackle unfair tax avoidance**, including:

- a series of **measures to prevent avoidance of VAT**:
  - blocking a scheme used to avoid VAT on second-hand goods, particularly in respect of business cars;
  - following consultation, legislating at the earliest opportunity to block loopholes in the VAT treatment of face-value vouchers; and
  - ensuring that the VAT recovered by the largest partially-exempt businesses fairly reflects their level of taxable activity.
- **changes to the tax regime for British qualifying films** to restrict relief to films intended for theatrical release at the commercial cinema, subject to discussion with the industry on the details of implementation;
- **changes to restrict the circumstances in which tax relief is available for manufactured payments**; and
- **the introduction of a reserve power for HM Treasury to make regulations specifying jurisdictions in which all controlled foreign companies (CFCs) would fall within the charge to tax under the CFC rules**. The Government hopes that jurisdictions will make these changes, removing the necessity for regulations.

## **PROMOTING INTERNATIONAL POVERTY REDUCTION**

**5.98** The Government's long-term goal is to tackle global poverty and help to achieve the international community's Millennium Development Goals (MDGs) by 2015. These goals include halving the proportion of people living in extreme poverty, reducing child and maternal mortality, ensuring that no child is denied primary education, and reversing the spread of HIV/AIDS, malaria and other killer diseases.

**Box 5.5: Financing for Development**

In March 2002, developed and developing countries, multilateral institutions, non-Governmental organisations and representatives from the private sector attended a major United Nations conference on Financing for Development. The Monterrey Conference represents a turning point in the international community's approach to development, recognising the need for a new deal based on the rights and responsibilities of both developed and developing countries.

Governments at the conference pledged significant increases in Official Development Assistance to the poorest countries. Following the publication of a UK paper on the case for aid<sup>1</sup>, European Union Member States agreed collectively to raise their aid budgets by an estimated \$7 billion a year by 2006. The US also pledged additional aid volumes of \$10 billion between 2004 and 2006 and an additional \$5 billion thereafter.

While these increases represent real progress, they still fall short of the aid levels necessary to achieve the Millennium Development Goals (MDGs), which the World Bank estimates will require \$40 to \$60 billion each year. In November 2001, the Chancellor proposed an International Development Trust Fund, to pool contributions and leverage private sector finance, to deliver the level of funding needed to meet the MDGs. Having secured substantial new resources, the UK will continue to seek further progress, to ensure that no developing country genuinely committed to good governance, economic reform and poverty reduction will be denied the chance to achieve the Millennium Development Goals through lack of finance.

<sup>1</sup> *The case for aid to the poorest countries*, HM Treasury and the Department for International Development, March 2002

**Commonwealth Education Fund** **5.99** The Government is working closely with other countries to ensure that every child has access to primary education. Today, 113 million children – 75 million of them in Commonwealth countries – lack access to basic education. Since 1997, the Department for International Development has committed over £650 million to achieving universal primary education in developing countries. As announced in Budget 2001, the Government has also launched a new Commonwealth Education Fund, with a £10 million initial endowment, to strengthen civil society in developing countries and to help the poorest and most marginalised children to complete good quality primary education. The Government will match contributions to the Fund from business and individuals, pound for pound, including tax relief.

**Tackling the diseases of poverty** **5.100** Every year almost 6 million people die from HIV/AIDS, malaria and tuberculosis, almost all in the world's poorest countries. Tackling these diseases, and improving health outcomes for poor people in developing countries, requires a comprehensive approach.

**5.101** Since 1997, the Department for International Development has agreed new bilateral commitments worth over £1 billion to help improve the provision of basic healthcare in poor countries. Through its High Level Working Group on Access to Medicines, the Government is developing further proposals on trade, patents and pricing of medicines. The Government has taken a leading role in the development of the Global Fund to fight HIV/AIDS, malaria and tuberculosis. International commitments to the Fund now stand at \$1.9 billion, of which the Government has so far pledged \$200 million. To complement these strategies, as announced in Budget 2001, and following further consultation, the Government is now:

- **introducing a new tax credit to encourage companies to increase research and development (R&D) into vaccines and medicines for the prevention and treatment of malaria, TB and those strains of AIDS which predominantly affect people in developing countries.** The credit will reinforce and extend existing R&D incentives, providing 50 per cent relief on qualifying expenditure on top of all other R&D allowances. Companies will also be entitled to claim relief on financial contributions toward independent research into these diseases by charities, universities and scientific research organisations; and
- **introducing a new relief, with effect from 1 April 2002, to encourage responsible donations of medical supplies and equipment to developing countries, in support of those countries' own health strategies and the needs of their people.** This relief will allow companies to deduct from their taxable profits the cost of donations made for humanitarian purposes together with the cost of transport, delivery and distribution of donated goods. In implementing this measure, the Government will encourage adherence to the voluntary guidelines on donations set out by the World Health Organisation.

**Debt relief 5.102** The Government continues to be a leading advocate of debt relief through the Heavily Indebted Poor Countries (HIPC) initiative, and is encouraging other countries to adopt the UK's practice of providing 100 per cent bilateral relief to reduce poverty. So far, 26 countries have received debt relief worth \$62 billion under the HIPC initiative, while five countries have completed the process. The Government has already provided £236 million of bilateral debt relief and has pledged \$375 million to the multilateral institutions in support of the HIPC initiative. The Government has also granted interim debt relief of over £697 million, which will become irrevocable when countries complete the HIPC process. For the remaining 16 HIPCs, the Government is prepared to write off a further £1.1 billion. Debt relief must however lead to a sustainable exit from indebtedness; the Government will continue working with its international partners to ensure that assistance under the HIPC initiative is able to deliver this.