

Rt Hon Alistair Darling MP, Chancellor of the Exchequer

Pre-Budget Report statement to the House of Commons

24 November 2008

Mr Speaker, my Pre-Budget statement today is made against a background of economic uncertainty not seen for generations.

These are extraordinary, challenging times for the global economy.

And they are having an impact on businesses and families right across the world.

Mr Speaker, in these exceptional economic circumstances, I want to take fair and responsible steps to protect and support businesses and people now – while putting the public finances on the right path for the future.

That is what I will do today.

My central objective is to respond to the consequences of this global recession on our country, both now and in the future, so that we are ready to take full advantage of the recovery of the world economy.

My aim is to provide support and protection for families and businesses when they need it most.

To maintain our commitment to investing in schools, hospitals and the nation's key infrastructure.

And to put in place the measures necessary to ensure sound public finances in the medium term so that as a country we live within our means.

Not one single initiative, but a comprehensive plan, to support families, business and the economy.

And because of the wide ranging measures I am announcing today and the many strengths of the British economy, I am confident that the slowdown will be shallower and shorter than would have been the case.

I am also confident that the UK, as an adaptable and open economy, will be well positioned to benefit from a return to growth in the world economy.

First, let me turn to my assessment of the international economy.

Because of better macroeconomic policy decisions and continuing, deeper globalisation, over the last ten years:

- Global growth has increased from 3 to 4 per cent.
- Inflation has fallen from 22 to 4 per cent.
- Living standards have risen sharply with 300 million people across the world lifted out of poverty.

But a crisis which began, as America itself has said, in the US housing market has seen these benign conditions undermined.

The problems in the sub-prime housing market rapidly spread to the entire global financial system, causing a disastrous tightening in credit and undermining confidence.

The Bank of England estimates that global bank losses could eventually reach 3 trillion dollars, as big as the economies of Italy and Spain put together.

Global shares have fallen by 50 per cent since May.

Mr Speaker, all this happened, too, at a time when the global economy was already suffering from unprecedented increases in energy, food and commodity prices.

These increases pushed up inflation everywhere and added to the pressure on businesses and households.

In the UK, inflation, though now falling, is still at 4.5 per cent.

In the Euro area inflation has been above the central bank target since mid 2007.

In Spain, inflation peaked at 5.3 per cent. In the US at 5.5 per cent.

Mr Speaker, the result has been a sharp reduction in growth across the world.

The Euro area has been in recession since April.

In Japan and Germany, GDP has already shrunk by about 1 per cent in the last six months.

And economic output is falling in the United States. Growth in China and India too has slowed sharply.

This is an unprecedented global crisis.

But the World Bank and other institutions are confident that the global economy will recover strongly – predicting it will double in size over the next two decades, helping to spread prosperity across the world.

Mr Speaker the root of today's problems are failings in the global financial system.

The banking system is the heart of all economies.

Financial markets affect everyone's daily life. If they fail to function properly, the impact is felt right across our economy and by every one of us.

So restoring and maintaining financial stability is absolutely crucial.

Mr Speaker, the causes of instability are global, so the Government's response must mean working closely with other countries.

Earlier this month, the Prime Minister and I attended the G20 summit in Washington.

A comprehensive range of measures was agreed to increase transparency of financial activities, ensure better international supervision and prevent excessive risk taking.

It is crucial this plan is implemented. So with the UK holding the presidency of the G20 next year, we will take the lead in doing all we can to prevent a reoccurrence of these problems.

Building on the work of the Financial Stability Forum, which for some time, has been looking at international agreement on capital requirements that reflect the economic cycle and risk.

Domestically, too, we need to make supervision and regulation more effective.

The Financial Services Authority is now considering changes across the regulatory system – including banks' capital requirements, liquidity conditions, accounting rules and pay structures.

The new chairman of the FSA will also examine whether the right processes are in place to ensure the FSA can supervise the system.

Mr Speaker, the current financial crisis has also illustrated two further issues.

First, the recent financial turbulence has highlighted potential problems with overseas territories and crown dependencies, such as the Isle of Man and Channel Islands.

They attract banking customers with lower taxes – without contributing to the UK Exchequer.

But at times of stress, depositors need to know who will compensate them.

The British taxpayer, cannot be expected to be the guarantor of last resort.

[back to top](#)

So I have asked for a review of these regulatory arrangements, which will report to me in the spring.

Second, we must resolve the situation highlighted by the Icelandic bank – Landsbanki – where billions of pounds of British savers' money can be deposited in a foreign bank with branches in the UK – with insufficient safeguards for these depositors.

They were not adequately covered by the compensation scheme of the Icelandic authorities, so we had to step in to guarantee UK savers' money.

So we are taking the lead, at the European Union, to tackle these shortcomings in international compensation arrangements.

We can't allow this to continue and we have asked the European Commission to come back with recommendations by the spring.

Mr Speaker, a strong banking system is vital to the health of our economy.

It needs to be fair and open, offering the range of services and lending demanded by consumers.

Because of the Government's action over the past year, no retail depositors in British banks have lost out.

Last month, we took action to improve confidence in the banking system and recapitalise the banks.

By next month, banks will have accessed some £100 billion of funding under the Credit Guarantee Scheme.

Now the scheme is up and running, and other countries are beginning to implement their own schemes, it is time to explore how it can further support lending to families and business.

We should continue to monitor the working of the scheme and improve it if necessary. I shall announce any changes shortly.

But we also know that the process to allow UK banks to raise money in the markets – through rights issues – is too slow and complex.

Today, the Rights Issues Review Group, which I set up, has reported.

I will pursue their recommendations in full – which will make the process for raising equity capital faster and simpler.

All these steps are aimed at combating instability, restoring confidence in the system, and improving protection for depositors; while defending the taxpayers' interests.

Mr Speaker, our economy cannot insulate itself from this global financial turmoil.

But the UK economy faces these challenges from a position of relative strength compared to the past.

Even today, employment remains near record highs. The claimant count, while rising, is two million below the level of the early 1990s.

There are still today over half a million unfilled vacancies in the economy.

Government debt last year was among the lowest in the major advanced economies.

At the same time we have been able to triple public investment – in key services, transport and infrastructure.

Mr Speaker, we did fix the many roofs that needed fixing – the roofs of schools, hospitals and homes throughout the United Kingdom.

While all other major economies suffered recessions, we saw the longest period of continuous growth in the history of this country.

This has brought immense benefits – and tens of thousands of jobs across England, Scotland, Wales and Northern Ireland.

The UK is the world's leading financial centre, but because of the size of our financial sector we are likely to be affected more directly by a global financial recession.

New lending has shrunk, in the UK by over a third since March.

With mortgages harder to get and more expensive, this has hit the property markets with prices falling by 11 per cent over the same period.

Mirroring big falls in world stock markets, UK share prices are down by almost a third.

These falls came as businesses and families were already having to meet rising energy and food bills, which squeezed incomes, and led to lower spending on other goods and services.

This combination of higher prices and tighter credit has inevitably put downward pressure on growth here in the UK and across the world.

The volatility in prices was underlined last month, when inflation fell from 5.2 to 4.5 per cent, the biggest monthly drop in 12 years.

But, while volatile, inflation is expected to continue falling.

And this has already made room for the Bank of England to cut interest rates by 2 percentage points since October, to a 50-year low of 3 per cent.

For the millions of people on tracker mortgages, this cut in interest rates will be worth on average around £100 a month off their mortgage repayments.

But monetary policy – interest rates – on their own are not enough to stimulate the economy, as most people recognise.

So we need action now – to boost economic activity – together with the real help I will announce today, to help us emerge quicker.

And emerge stronger – from these difficult times, and face the future with confidence.

Mr Speaker, I now turn to the detail of the economic forecast.

These forecast are made against a background of sharply deteriorating conditions across the world.

The IMF is forecasting a year-long fall in output next year across all advanced economies, the first time this will have happened since 1945.

And the UK is no exception.

Mr Speaker, UK GDP contracted by 0.5 per cent in the three months to September.

And growth this year is forecast to be $\frac{3}{4}$ per cent, which reflects a further fall in output in the fourth quarter of this year.

The IMF is forecasting that the US, Germany, Japan, France, Italy – as well as the UK – will all contract next year as a result of weak consumer spending and business investment.

I, too, am forecasting that output will continue to fall in the UK, for the first two quarters of next year.

But then, because of decisions taken in this Pre-Budget Report, I expect it to start to recover.

GDP growth for 2009 is forecast to be between $-\frac{3}{4}$ per cent and $-1\frac{1}{4}$ per cent.

Mr Speaker, inflation is forecast to come down sharply, reaching $\frac{1}{2}$ per cent by the end of next year.

Lower commodity prices and lower interest rates, which boost incomes and help business profits, together with the fiscal reaction across the world, will also help.

As an open and flexible economy, the UK is well positioned to benefit from this recovery.

As a result, and as the world economy recovers from the credit crunch, the UK will begin to grow again.

So I am forecasting growth of between $1\frac{1}{2}$ and 2 per cent in 2010.

In the years after that, the economy will continue to recover.

Trend output – or the productive potential of the economy – will initially fall.

But in future years, the economy will recover towards a rate of trend growth of around $2\frac{3}{4}$ per cent.

[back to top](#)

Mr Speaker, every country in the world is facing the impact of this crisis on their own economy.

There is a growing international consensus, although unfortunately not in this House, that we must act now to protect people and to help pull our economies out of recession.

For there is a choice.

You can choose to walk away, let the recession take its course, adopting a sink or swim attitude, letting families go to wall.

This is the no action plan.

Or you could, as I have decided, as have governments of every shade around the world, to support businesses and families, by increasing borrowing, which will also reduce the impact and length of the recession.

I will do whatever it takes to support people through these difficult times.

That's why my Pre-Budget Report today represents a substantial fiscal loosening – to help the economy now – with a £20bn fiscal stimulus between now and April 2010, around one per cent of GDP.

Before I describe the detail of how the Government will support people, let me turn to the fiscal framework which will help us ensure fiscal sustainability.

The Government introduced the Code for Fiscal Stability in 1998, committing itself to conducting fiscal policy in accordance with a clearly stated set of principles.

Our objectives are, and remain, to support the economy, to ensure medium-term sustainability and maintain public investment.

It meant we were able to more than triple public net investment, from 0.6 per cent of GDP in 1997 to over 2 per cent now.

At the same time, we cut the government debt, from 43 per cent of GDP in 1997 to 36 per cent in 2007.

Today I publish the Treasury's assessment of the last economic cycle, which is supported by the independent National Audit Office.

It shows that the last cycle started in 1997 and finished in the second half of 2006. And this means that the Government met both its fiscal rules over the last cycle.

The average current budget balance, over the cycle, was 0.1 per cent of GDP.

But today Britain – like every other country in the world – faces an extraordinary global crisis, which means significantly lower tax revenues, both now and in the medium term.

In the current circumstances, to apply the rules in a rigid manner would be perverse and damaging.

We would have to take money out of the economy, making a difficult situation worse.

So it is right that in this Pre-Budget Report we do all we can to support the economy, but also ensure fiscal sustainability in the medium term.

Consistent with the Code for Fiscal Stability, the Government is setting a temporary operating rule.

It requires us to set policies to improve the cyclically-adjusted current budget each year, once the economy emerges from the downturn, so it reaches balance and debt is falling as a proportion of GDP once the global shocks have worked their way through the economy in full.

The fiscal projections set out in this Pre-Budget Report are consistent with returning to current balance and debt falling as a share of the economy by 2015/16.

They imply, as the economy emerges from downturn, an adjustment in the cyclically adjusted current balance of over 0.5 per cent a year from 2010/11.

Setting us on a path to deliver our objectives of supporting the economy, ensuring sustainability and maintaining public investment.

In addition, to increase transparency even more, I have asked the NAO to audit the Treasury's analysis of the cyclical fiscal position.

I now turn to the forecast for the public finances.

Mr Speaker, because of the economic situation, tax revenues are falling across the world.

As company profits fall, so do the proceeds from corporation tax. Receipts from the financial sector alone are expected to reduce by 35 per cent this year.

Slower growth in wages means less income tax.

Fewer people buying houses and falling prices mean less money from stamp duty, where tax take is down 40 per cent.

Because of the scale of these global problems, it is inevitable that tax revenues will take some years to come back up.

This all means that borrowing will be significantly higher than forecast.

As a result of the combined effect of lower revenues, our commitment to maintain spending and extra support to the economy, borrowing will rise to £78bn this year and £118bn next, or 8.0 per cent of GDP.

But then, from 2010, as I take action to reduce borrowing when the economy begins to recover, borrowing will fall to £105bn, £87bn, £70bn and £54bn.

And by 2015/16, we will again be borrowing only to invest.

This means the projection for the underlying budget deficit, excluding investment, will be 2.8 per cent of GDP this year and 4.4 per cent next year.

But consistent with my commitment to sustainability, as a result of my announcements today, the underlying budget deficit, excluding investment, then improves, as a share of GDP, to 3.4 per cent, 2.3 per cent, 1.6 per cent, 1 per cent and projected to reach balance by 2015/16.

Mr Speaker, the economic crisis and the action by governments across the world, will inevitably mean sharp increases in national debt relative to GDP.

Again the UK will be no exception.

But because we started from a stronger position, our debt will remain below that of most other major countries.

UK net debt, as a share of GDP, will increase from 41 per cent this year, to 48 per cent in 2009/10, 53 per cent in 2010/11, before peaking at 57 per cent in 2013/14.

If we did nothing Mr Speaker, we would have had a deeper and longer recession, which would cost the country more in the long-term.

In these exceptional circumstances, allowing borrowing to rise, is the right choice for the country, as the CBI, the Institute of Directors, Institute for Fiscal Studies, the IMF, and many others, have all said in recent weeks.

Mr Speaker, we will continue to invest in public services – just as we have done over the last ten years.

Investing in school or hospitals, and modernising infrastructure and transport links, is not just an effective way of stimulating the economy, safeguarding jobs and protecting incomes.

It is also vital for the future strength and health of our country.

We have seen in the past the long-term damage that cutting public investment has on the essential fabric of the country and the support people need.

Since 1997, we have doubled the NHS budget, cutting hospital waiting lists.

Spending on education is 60 per cent higher, improving schools and exam results.

Transport spending is up by 70 per cent, with over 130 major road schemes and record numbers travelling by rail.

Total government spending, on much-needed investment and public services, has increased from £322 billion in 1997 to £584 billion last year.

Mr Speaker, through the current spending review, we will continue to support and improve key public services, to meet the ambition of the people of this country.

The challenge is to continue to deliver these improved services while ensuring we continue to get value for money.

Today I can tell the House that, since 2004, the Government has delivered £26.5bn of efficiency savings – exceeding the target set by Sir Peter Gershon by £5bn.

Building on this, at last year's Comprehensive Spending Review, we committed to improve value for money, targeting a total of £30bn by 2010/11, without putting public services at risk.

[back to top](#)

But, as the original Gershon report said, there is a point at which front line public services would be affected – and we will not pass that point.

And having carefully considered the extent and the limits of efficiency savings, today I can announce the Government will now find an additional £5bn of efficiencies in 2010/11 for a total saving of £35bn over three years.

We know extra savings are achievable because independent reviewers have identified new efficiencies across public sector operations.

The efficiencies will come through lowering the cost of back office operations, better procurement, examining property holdings and asset sales.

By continuing to make efficiency savings, we can help fund the action needed to help families and businesses.

But we will also ensure spending continues to rise from £584bn last year to £682bn in 2010/11.

And in the next spending review we will continue to put money into public services and investment, to maintain the gains of the last decade, by increasing current spending by an average 1.2 per cent a year in real terms.

As businesses and families across the country carefully watch what they spend, it is only right that the Government works even harder to make savings.

Mr Speaker, I now turn to a wide range of measures which I am taking to support the economy and the people of this country.

They will help businesses, support home-ownership and boost people's incomes now.

Bringing forward capital spending, on major projects, supports jobs and businesses.

It is right that, at this time, we re-prioritise investment, from within the existing three-year limits, so that more money is being spent now, when the economy is weaker.

I can announce today that £3bn of capital spending will be brought forward from 2010/11 to this year and next.

The money will be used to:

- increase capacity in the motorway network,
- improve and build new social housing,
- renew primary and secondary schools,
- and invest in energy efficiency measures.

I have looked at these programmes in detail, and I know they can be delivered on this revised timescale.

It will put people to work, renovating infrastructure, modernising schools, and creating more fuel efficient homes.

All vital for the future prosperity of the country and supporting jobs in key industries.

This is only possible because I am prepared to take action now.

Mr Speaker, this spending will help put money into the economy in the coming months.

But to prevent the recession deepening, we also need to take action to put money into the economy immediately.

I have looked at a range of ways which might achieve this.

I have decided that the best and fairest approach is a measure which will help everyone.

To deliver a much-needed extra injection of spending into the economy right now.

I therefore propose to cut VAT from 17.5 to 15 per cent until the end of next year.

This VAT reduction will come into effect next Monday on December 1st.

It will continue for 13 months before returning to the present level of 17.5 per cent at the beginning of 2010 by which time we expect the recovery to be underway.

This temporary reduction is the equivalent of the Government giving back some 12 and a half billion pounds to consumers to boost the economy.

It will make goods and services cheaper and, by encouraging spending, will help stimulate growth.

And this is only possible because I have rejected advice to take no action.

Mr Speaker, I am also taking additional measures to support people on modest and middle incomes.

In May I announced an increase, for this year alone, in the income tax personal allowance – a benefit of £120 a year for basic rate taxpayers.

I have decided to make this temporary tax cut permanent. And to increase it to £145 a year in April.

This will benefit 22 million basic rate tax payers.

My announcement in May helped 4.2 million households affected by the abolition of the 10p rate.

This announcement will help another half a million households – not just this year but for good.

But along with these immediate steps to help businesses and families now, I am also announcing measures to ensure sustainable public finances in the medium term.

I considered a number of options to raise revenue in future years.

And I have chosen those which are fairest – and affect those who have done best out of the growth of the last decade.

Mr Speaker, by 2011 we expect the economy to be recovering strongly, profits rising and incomes growing at close to 4 per cent, as they have over the last decade.

I propose, therefore, from April 2011 to increase by half a percent all rates of National Insurance Contributions, for both employees and employers.

But to ensure this increase does not fall on those on modest incomes, I have also decided, at the same time, to raise the starting point for national insurance to align it with that of income tax.

No one under £20,000 will pay any more national insurance contributions as a result.

Second, those with the highest incomes have seen their earnings almost double since 1996.

So again from April 2011, I intend, only on income over £150,000, to introduce a new rate of income tax of 45 per cent.

This higher rate of tax will only affect the top one per cent of incomes.

I also intend to withdraw the long-standing anomaly of the income tax system, by which the personal allowance is worth twice as much to higher-rate than basic-rate taxpayers.

Again, I will protect those on middle incomes and this will only affect those earning over £100,000, the top 2 per cent.

So from April 2010, those with incomes between £100,000 and £140,000 will see the value of their personal allowance reduced – so they get the same benefit as a basic rate taxpayer.

For people with incomes above £140,000 I will withdraw the full value of the personal allowance.

I also intend to maintain the ceiling on tax relief given to people with pension funds up to £1.8m, until and including 2015/16.

The reduction in VAT lowers the amount of tax paid on tobacco, alcohol and petrol.

In addition, petrol prices have come down, by 7 pence a litre last month alone.

So I will offset the VAT reduction, by increasing all these duties by an amount which should keep the overall cost to consumers the same this year.

Of course, if we see a stronger economy and increased tax revenues, we will review whether we need to take these tax raising measures.

But I also believe it is right that, as we all benefit fairly from the exceptional measures we take today, we should all share fairly the burden of the future.

Taken together these steps will ensure that there is extra money flowing into the economy now when it is needed most, but we can reduce borrowing as growth returns.

And as a result of my decisions today to provide support now and balance the books in the future, I will bring the current budget back into balance by 2015/16.

Fiscal support now and fiscal sustainability both now and in the future.

Mr Speaker, small and medium firms are the engine of our economy.

They make up the vast majority of businesses and employ around 60 per cent of the private sector workforce.

They also are facing continuing difficulties with cash flow and credit.

I know that many profitable businesses are concerned that these twin problems threaten their future. I am determined to help them.

So my objectives today for business are threefold.

First, help equip them for the challenges of the future.

Second, to improve access to credit and ease cash flow.

And third, to reduce burdens on them at this difficult time.

Mr Speaker, I will maintain a focus on the long-term competitiveness of the UK and to increase our attractiveness as a base for global businesses.

To do so, I will introduce an exemption for foreign dividends in 2009 for large and medium businesses, and improve our rules for taxing Controlled Foreign Companies.

To build on this, I have also today published analysis of the long-term global trends impacting on the UK economy – and the Government's response to them.

Mr Speaker, small businesses need help to reduce costs. I have two announcements to ensure they receive this help.

First, to help small firms meet their running costs, I can announce a temporary increase in the threshold for empty property relief.

For 2009/10, empty commercial properties with a rateable value below £15,000, will be exempt from business rates.

This exemption covers an estimated 70 per cent of all empty properties.

Second, at this time of real difficulty for many small businesses, they need 'time to pay' when meeting their tax bills.

I intend to meet this need.

From today HMRC will enable firms facing difficulties to spread their tax on a timetable they can afford.

This will cover not just VAT, as some have suggested, but all business taxes.

VAT, corporation tax, income tax and national insurance.

And not for six months but for as long as they need.

[back to top](#)

Real help when businesses need it most.

I will also allow several hundred businesses in ports to spread out their payment of backdated business rate bills.

Mr Speaker, we must continue to address the difficulty that many small and medium firms face in getting loans.

As part of our recapitalisation scheme, we agreed that banks receiving Government funding would maintain the availability of lending to SMEs at 2007 levels.

And I welcome the commitment announced at the weekend by the Royal Bank of Scotland, one of the recapitalised banks, not to increase pricing on SME overdrafts prices for at least a year.

This will give security and reassurance to up to one million small businesses.

This should become the benchmark for all UK banks.

We are closely monitoring this commitment by banks to treat business customers fairly and decently.

I will take whatever action is necessary to make sure this happens.

We are also acting directly to improve access to finance.

First, we have agreed a £4 billion deal with the European Investment Bank to provide money to the banks to pass onto SMEs.

I can report today that seven UK banks have already asked the EIB for this money. £1bn will be available to their customers by the end of the year.

Next, I can announce the Government is also to offer credit through a temporary Small Business Finance Scheme.

This is worth another £1 billion to small businesses.

It should allow small businesses to borrow sums from a thousand pounds to a million pounds at more flexible terms than before, making lending more affordable and easily accessible.

This will help SMEs experiencing short-term cash flow problems get the funding they need.

We are also going to support companies which export, through the Export Credit Guarantee Department.

From January, it will offer a temporary facility to support the availability of short-term working capital for smaller exporters.

This will mean yet another £1bn of support, to help ease the financing constraint faced by firms trading in current circumstances.

Real support, quickly, for all types of small businesses.

Only possible because we have made a deliberate choice to support businesses through this crisis.

Mr Speaker, I have two more measures to announce to help business save tax.

First, I have decided to defer the increase in the small companies rate of corporation tax, which firms pay on their profits.

This will provide a boost to small companies – leaving their tax rate in 2009 unchanged.

Second, I want to support viable small companies who are finding it harder to make a profit at the moment.

We already have a system of tax repayments which are available to help those businesses, previously profitable, but now making losses.

Currently, companies are only able to offset losses against profits made in the last year.

It is important to offer more support to businesses at the moment.

So I am today extending this repayments scheme so losses of up to £50,000 can be offset against profits made for the last three years.

An estimated 75,000 businesses will benefit from this change, by receiving tax repayments.

And of these, 90 per cent will have their full current losses wiped out.

This is a comprehensive package of support which business has been asking us to provide.

A package to support business, worth £1bn of tax cuts, £2bn in loan guarantees, along with £4bn of European money.

A £7bn package of measures, real help.

Funding we can provide because we have decided to take action to support our economy through this recession.

I believe these steps will help businesses through the current difficulties and enable them to invest so they can make the most of opportunities as the global economy recovers.

Mr Speaker, I am determined that the present economic uncertainty does not push aside the importance of protecting the environment and our long-term needs for a greener and secure energy future.

We are already on track to exceed our emissions reduction targets under the Kyoto protocol – and further ahead than all G7 countries.

We have now increased our commitment for emission reductions to at least 80% by 2050 - the most ambitious in the G7.

Through the Climate Change Bill and the new five-year carbon budgets, the UK becomes the only country in the world where legislation sets a binding commitment to cut emissions.

The Government will set out detailed proposals for meeting the new carbon budgets, laid before Parliament, in summer 2009.

Our climate change strategy is based on a range of policies – encouraging more fuel-efficient business and transport; better energy use at home, and targets for renewable energy generation.

Central to this is the European Union Emissions Trading Scheme.

Last week we conducted the first auction of carbon allowances in Europe which gives firms the incentive to cut overall emissions.

As the Government has demanded, aviation will now be included in the emissions trading scheme from 2012.

This is a major step towards achieving our environmental objective of reducing the impact of aviation on climate change.

It has enabled me to look again at our proposals for reforming air passenger duty.

Mr Speaker, last year, there was cross-party support for a reform of air passenger duty to a tax per plane.

As much as I am in favour of a bipartisan approach, it seems in this case not to have reached the right conclusion.

This proposal could harm the aviation industry at a time when it is facing huge problems.

So instead I have decided to reform APD into a four-band system ensuring those that travel further and have a larger environmental impact meet that cost.

I believe this will be effective in reducing emissions from aviation.

Mr Speaker, improving insulation and energy efficiency will also help us reduce emissions as well as cutting energy bills for families.

In September we announced a £6.8 billion home energy saving programme.

This is expected to lead to a 70% increase in installation rates for cavity wall and loft insulation this winter.

The Warm Front scheme has already used its additional £50m to help modest income households get free energy efficiency measures.

Today I can announce that I am providing an additional £100 million in new money, and bringing forward another £50million, to help up to 60,000 more households insulate their homes.

Mr Speaker, the most pressing energy problem for many families is paying heating bills.

We have already tripled cold weather payments for this year, up to £25 a week, for those on modest incomes.

But I know there is widespread concern that the fall in the price of wholesale energy has not been reflected quickly enough in reduced household bills.

[back to top](#)

I can tell the House that Ofgem is to monitor price changes and publish quarterly reports detailing the link between wholesale and retail prices.

Alongside this, if sufficient progress is not made in the next few months in closing unfair gaps in pricing between payment methods – the Government will use statutory powers to end unjustifiable pricing differentials.

Mr Speaker, oil and gas from the North Sea remains an important part of our energy supply.

I am consulting closely with the industry over how together we can put in place the right incentives to increase production from marginal oil fields.

Mr Speaker, the economic recovery must support our environmental objectives – not come at its expense.

Government policies will drive more than £50 billion of investment and activity in the low-carbon sector over the next three years.

This year we became the world-leader in offshore wind energy capacity.

But we must make even more of our transition to a low-carbon world.

As part of the commitment to bring capital spending forward, the government will invest £535 million more quickly on energy efficiency, rail transport, and environmental protection.

This will mean more homes benefiting from better heating and insulation, better flood defences and 200 new trains.

One of the many steps we are taking to secure high-value green-collar jobs – a potential one million jobs in low carbon industries in the next 20 years.

I have one further announcement. Renewable energy along with nuclear power will play an increasing role in meeting our energy future.

I can announce today that the Government will extend the Renewables Obligation for an additional ten years to 2037.

By requiring energy companies to generate a share of energy from renewable sources, the Obligation will underpin investor confidence and support the development of renewable energy.

We are taking the right long-term decisions to protect the environment, create low-carbon jobs and provide energy security.

Mr Speaker, I want to take steps to improve the supply of mortgages, avoid repossessions, and to increase the number of new homes.

Today, I can set out proposals to do this.

The current problems in the housing market are a result of the credit crisis which has drastically reduced the opportunities for people to get a mortgage loan.

Last month, I took decisive action to recapitalise the banks so they can maintain the availability of lending including mortgages.

Today I welcome the publication of Sir James Crosby's report on finance in mortgage markets.

His principal recommendation today is that the Government support the mortgage market by providing, for a temporary period, guarantees for securities backed by new mortgages.

I share Sir James's concerns about the availability of mortgage finance.

To implement Sir James's recommendation, the Government would need to obtain State Aid approval from the European Commission and resolve some technical and practical considerations.

But we will proceed to work up a detailed scheme based on his recommendations and seek State Aid approval to proceed.

I will also take into consideration the interaction between this proposal and the Credit Guarantee Scheme. I will report back by the Budget.

Mr Speaker, I am setting up a new body – the Lending Panel – which will monitor lending to both business and households.

It will bring together the Government, lenders, trade bodies, consumer groups, regulators and the Bank of England to monitor lending levels and practices by banks.

And we intend to consider how else we can help ensure that those in work but facing financial difficulties can remain in their homes.

It is not just the availability of new mortgages which is a problem in the housing market. It is also fears about meeting the cost of existing home loans.

Mr Speaker, it is right that in these cases repossession should be the last resort. I am pleased to say that this has been recognised by the lenders.

The major lenders have agreed today that, where someone is facing repayment difficulties with their home mortgage, they will wait at least three months after the borrower falls into arrears before initiating repossession proceedings.

This will give homeowners time, to work with lenders, to find a solution.

And I also welcome the commitment from lenders to explore all possible options, including accepting a minimum payment or mortgage rescue products, before and after homeowners get into difficulties.

It is also important, Mr Speaker, that families worried about their finances and mortgages can get expert and impartial advice.

So I am announcing today £15 million of new funding for free debt advice, available to everyone, regardless of circumstances, available across the country.

Mr Speaker, I intend to take two further steps to help homeowners facing financial difficulties.

First, in September I extended the Support for Mortgage Interest scheme which covers mortgage interest payments for those who have lost their jobs.

And today I can announce we will also increase the upper limit of the scheme, for mortgages up to £200,000, from the present limit of £100,000.

This will help ease worries for homeowners who have lost their jobs as they look for new employment.

I have also agreed that, for six months, the level of interest rates covered by the scheme will remain, despite the base rate fall, at just over 6 per cent.

Second, I can also announce new mortgage support for people in work.

In September we set up a Mortgage Rescue Scheme, helping vulnerable homeowners facing difficulties stay in their homes.

Today I am extending this scheme, so it will also cover those at greater risk as a result of taking out second mortgages.

Together, this provides help against repossession worth £200m.

Mr Speaker, first-time buyer demand, and long-term housing supply, are the two essential cornerstones of the housing market.

In September, to boost the market as a whole, I agreed that £700m of Government spending for new social rented homes and shared equity schemes should be brought forward to this year and next.

Today, as part of the acceleration of capital spending, we will bring forward an additional £775m this year and next to invest in thousands of new and modernised social homes as well as regeneration projects.

Overall, this is a package of support for housing worth a total of £1.8 billion.

Support which can only be provided because I have decided we must act to give real help to people.

It will help homeowners of today stay in their homes – and help the homeowners of tomorrow buy their first home.

Mr Speaker, as the economy slows, it is crucial that the Government minimises the impact on employment.

Unemployment has started to rise and people's worries have increased about losing jobs and the difficulty in finding another one.

I am determined to do what I can to ease these concerns and to help those who are made redundant move quickly into a new job.

The evidence shows that the longer people are out of work, the more difficult it becomes to re-enter the labour market.

Since 1997, we have made good progress in offering people the individual support they need to find a new job.

We halved the time it takes to find new work.

Even as unemployment has been rising over the last three months, 1.2 million people have found new jobs.

I have three proposals to make.

Mr Speaker, those facing redundancy need greater support.

As the success of the Rapid Response Service has demonstrated, support in the work place in the form of advice on job-search, careers, and accessing existing vacancies can make a huge difference to employment prospects.

We will now further expand the Service so that its work includes all redundancies, not just those at the largest workplaces.

[back to top](#)

And to complement this, I will offer greater provision of pre-redundancy re-training through the Train To Gain initiative.

We will also target the successful Local Employment Partnerships not just on the harder to reach groups, but also on the short-term unemployed.

Mr Speaker, there are still over half a million unfilled vacancies.

Today I can announce a new initiative to help fill them, through national cooperation, with the country's major employers.

The National Employment Partnership will be chaired by the Prime Minister.

So far, 20 of the largest employers, including Tesco, Centrica and Royal Mail, have agreed to take part. Together, they employ over 2 million people.

I welcome their commitment to work with us to speed up recruitment, increase vacancies through Jobcentre Plus, and to step up access to work-related training.

And it is the high-quality support, provided by Jobcentre Plus network and New Deal programmes, to those out of work which has underpinned the success in the last few years in helping people quickly into employment.

I am determined to provide the resources so that this network – internationally recognised as world-class – can continue its excellent service.

I am setting aside additional funding to ensure Jobcentre Plus and the New Deal have sufficient capacity.

Today's employment measures are worth a combined £1.3bn; essential to prevent a temporary job loss becomes permanent unemployment.

Again, all these measures are only possible because we have taken a deliberate decision to support business, protect jobs, and help homeowners.

And I have set aside £1bn in the reserve so that we can continue to help during difficult times, and ensure that we emerge from the current downturn stronger and ready to seize the opportunities ahead of us.

Mr Speaker, I can also announce additional help for people of all ages.

Turning first to motorists, we rightly have a system of car taxation which takes into account the environmental impact from different types of car.

In the last Budget, I announced I was going to take this further by increasing the number of bands for Vehicle Excise Duty.

As planned, differential first year rates which people pay when they buy a new car will be introduced in April 2010.

They provide powerful incentives to purchase less polluting cars.

I intend to go ahead with the introduction of new bands, reflecting fuel efficiency.

But it would be wrong to do this in a way that places undue burdens on motorists at this time.

So I have decided to help people by phasing in new rates and lower increases.

First, in 2009, duty rates for all cars will only increase by a maximum of £5 as has been normal practice.

Second, from 2010, we will bring in differential increases in duty.

In the original proposal, some cars would have seen increases of up to £90.

Instead, I now propose that the more polluting cars will see duty increased, but up to maximum of £30.

And less polluting cars will see no increase or a cut of up to £30.

Mr Speaker, for savers.

We want to encourage those with modest incomes to put money aside.

To help them we are setting up a Saving Gateway – which will mean that the Government adds money to every pound saved.

From 2010, up to 8 million people on low incomes, who put money into the Saving Gateway, will get 50 pence added for each pound they save.

The Saving Gateway will be widely available through a range of banks, building societies and credit unions and, I can tell the House, the Post Office.

Mr Speaker, I also intend to step up help for families with children.

We have already announced that the child element of the Child Tax Credit will increase by £50 above indexation next April.

We have also announced a further increase in that credit of £25 above indexation in 2010.

I now intend to pay both these increases together in April, making it worth in total £2,235 for modest income families.

The Government is also working with Local Authorities to further improve take up of tax credits and benefits.

Local authorities have a key role as well in working with families to tackle disadvantage and extend opportunities for children.

We are introducing a child poverty bill next year which will set in legislation the historic commitment to eradicate child poverty by 2020.

And I have already announced that child benefit, which was only £11.05 in 1997, will increase from £18.80 to £20 a week in April next year.

We are supporting families and increasing opportunity for all children.

Mr Speaker, I also want to do more for pensioners.

First, for pensioners on modest incomes, I can announce today an increase in Pension Credit in April.

I will increase it from £124 to £130 a week for individual pensioners and from £189 to £198 for pensioner couples.

An increase above indexation – and the biggest increase in Pension Credit since it was introduced in 2003.

I can also confirm that State Pensions will increase in line with the highest rate of inflation this year.

This will increase the basic state pension for a single person from £90.70 to £95.25 - an increase of £4.55 a week – and up from £61 in 1996/97.

And now that inflation is expected to fall quickly, pensioners should see a real benefit.

Mr Speaker, I don't want people to have to wait for this extra money.

I want them to get it as quickly as possible.

This will benefit them and benefit the economy.

So families will not have to wait until April to receive their increase in Child Benefit.

Instead they will start to get it in January – 3 months early.

I want to do the same for pensioners.

They are already getting a winter fuel payment – increased again this year.

But I want to do more.

So I will ensure that every pensioner will get a one-off payment of £60, on top of the £10 Christmas bonus, from January.

And for couples, £120, also from January.

And this £70 payment will also go to children with disabilities.

In all 15 million people will gain from the beginning of next year.

Pensioners and children. Helping them and helping the economy.

Mr Speaker, these are exceptional times and require exceptional measures.

It requires action now to help people - and action now to build a stable economy.

We have made our choice.

Helping businesses. Helping homeowners.

Helping people into work. Boosting incomes.

All only possible because this Government has taken the deliberate decision to support people and businesses through these difficult times.

And I commend this statement to the House.