



A NEW ECONOMIC MODEL

EIGHT BENCHMARKS FOR BRITAIN

 Conservatives

**YEAR
FOR
CHANGE**

Contents

| | |
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| Foreword by George Osborne MP | 3 |
| Eight Benchmarks for Britain | 5 |
| 1 Ensure macroeconomic stability | 6 |
| 2 Create a more balanced economy | 8 |
| 3 Get Britain working | 11 |
| 4 Make Britain open for business | 13 |
| 5 Ensure the whole country shares in rising prosperity | 15 |
| 6 Reform public services to deliver better value for money | 17 |
| 7 Create a safer banking system that serves the needs of the economy | 19 |
| 8 Build a greener economy | 21 |

Eight Benchmarks for Britain

Where is the growth going to come from?

That is the simple question being asked about Britain at home and abroad. As the last major economy out of recession, and with the weakest recovery in the G-20, we need change to get our country back on its feet again.

We cannot go on with the old model of an economy built on debt. An irresponsible public spending boom, an overblown banking sector and unsustainable consumer borrowing on the back of a housing bubble were the features of an age of irresponsibility that left Britain so exposed to this economic crisis. They cannot be the sources of sustainable growth for the future. Indeed, the lack of confidence in Britain's ability to pay its way now risks higher interest rates and a return to recession.

So the answer lies in building a new British economic model. Saving and business investment must replace debt as the foundation of prosperity. Our exports must grow. Jobs must be created in the private sector and we must get value for money from the public sector. The world is changing fast. We can seize the opportunities presented by rising living standards in countries such as India and China, but only if we adapt quickly enough. We should be selling our services and high value goods to the world, including the new millions of Chinese and Indian consumers. Simply borrowing money from China to buy the goods they make for us may be Gordon Brown's idea of Britain's economic future, but it is not ours.

Under the next Conservative Government, our tax system, education and national infrastructure will help British firms out-compete others in the world, not hold them back. We will build a more balanced economy which does not depend so heavily on the success of financial services, and where all parts of the country share in the gains. The bedrock of this new model will be the stability and low interest rates that come from a credible plan to reduce our record budget deficit, protect Britain's credit rating and give taxpayers value for money.

And for the first time, the British people will have eight clear and transparent benchmarks – Benchmarks for Britain – against which they can judge the success or failure of their Chancellor and their government over the next Parliament. We will be accountable.

Building this new economic model requires a national effort. No government, even a strong and united one, can build it alone. It needs families and businesses pulling alongside.

In the coming months we want to unite the country behind this new British economic model.

George Osborne MP
Shadow Chancellor of the Exchequer

The Benchmarks for Britain

These are the eight Benchmarks for Britain. They are clear and transparent. Achieving them over the next Parliament will mean we have put Britain back on her feet and are building a new British economic model, very different from the debt-driven model of the past.

At the end of the Parliament, people will be able to use these Benchmarks to judge whether our economy is more stable, more balanced and more competitive. Then they can hold their government to account.

1 Ensure macroeconomic stability

- We will **safeguard Britain's credit rating** with a credible plan to eliminate a large part of the structural deficit over a Parliament. Our fiscal policy will seek to help keep interest rates lower for longer.
- The independent Bank of England will **continue to target 2% CPI inflation** and will use its new role in prudential supervision to **preserve financial stability**.

2 Create a more balanced economy

- We will create the conditions for **higher exports, business investment and saving as a share of GDP**.

3 Get Britain working

- We will **reduce youth unemployment** and **reduce the number of children in workless households** as a key part of our strategy for tackling poverty and inequality.

4 Make Britain open for business

- We will **improve Britain's international rankings for tax competitiveness and business regulation**.

5 Ensure the whole country shares in rising prosperity

- We will **raise the private sector's share of the economy in all regions of the country**, especially outside London and the South East.

6 Reform public services to deliver better value for money

- We will **raise productivity growth in the public sector** in order to deliver better schools and a better NHS.

7 Create a safer banking system that serves the needs of the economy

- We will reform the regulation and structure of the banking system to ensure **lower levels of leverage, less dependence on unstable wholesale funding and greater availability of credit for small and medium sized businesses**.

8 Build a greener economy

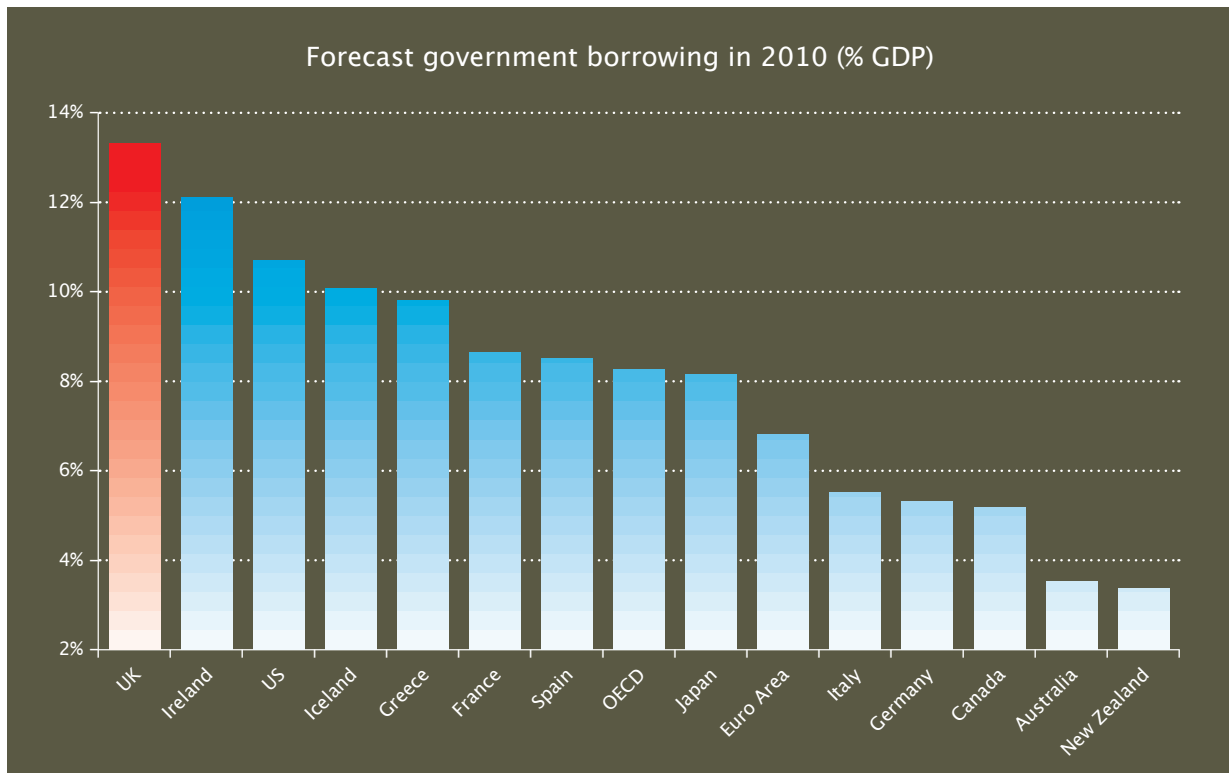
- We will **reduce UK greenhouse gas emissions and increase our share of global markets for low carbon technologies**.

This document is not a comprehensive list of Conservative policies, but it sets out the measures that we will take to deliver a sustainable recovery.

1 Ensure macroeconomic stability

We will safeguard Britain's credit rating with a credible plan to eliminate a large part of the structural deficit over a Parliament. Our fiscal policy will seek to help keep interest rates lower for longer.

The independent Bank of England will target 2% CPI inflation and use its new role in prudential supervision to preserve financial stability.



Source: OECD Economic outlook, November 2009. 2010 forecast general government financial balances as a percentage of GDP.

- Britain's budget deficit is now the highest in our peacetime history and is the highest of all G-20 countries.
- Credit rating agencies are increasingly questioning our credit rating.

'I'd characterise [the risk of a downgrade] as a bit less than 50%, but not very much less. I say that because one of the concerns that we have is that UK government debt is set to continue to rise not just this year and next year, but through to 2014-15.'

(David Riley, Global Head of Sovereign Risk, Fitch, on Newsnight, 20 January 2010)

'It's just a question of when on the current trajectory, not if. Based on what we know today about the debt trajectory and about the inability to adjust that, I think it's greater than a 50% likelihood for sure. Call it more like 80%.'

(Scott Mather, PIMCO's Head of Global Portfolio Management, Wall Street Journal, 5 January 2010)

'Current plans to halve the deficit over four years are too little, too late. The UK's AAA credit rating must be put beyond doubt.'

(CBI Deputy Director – General, John Cridland, press release, 18 November 2009)

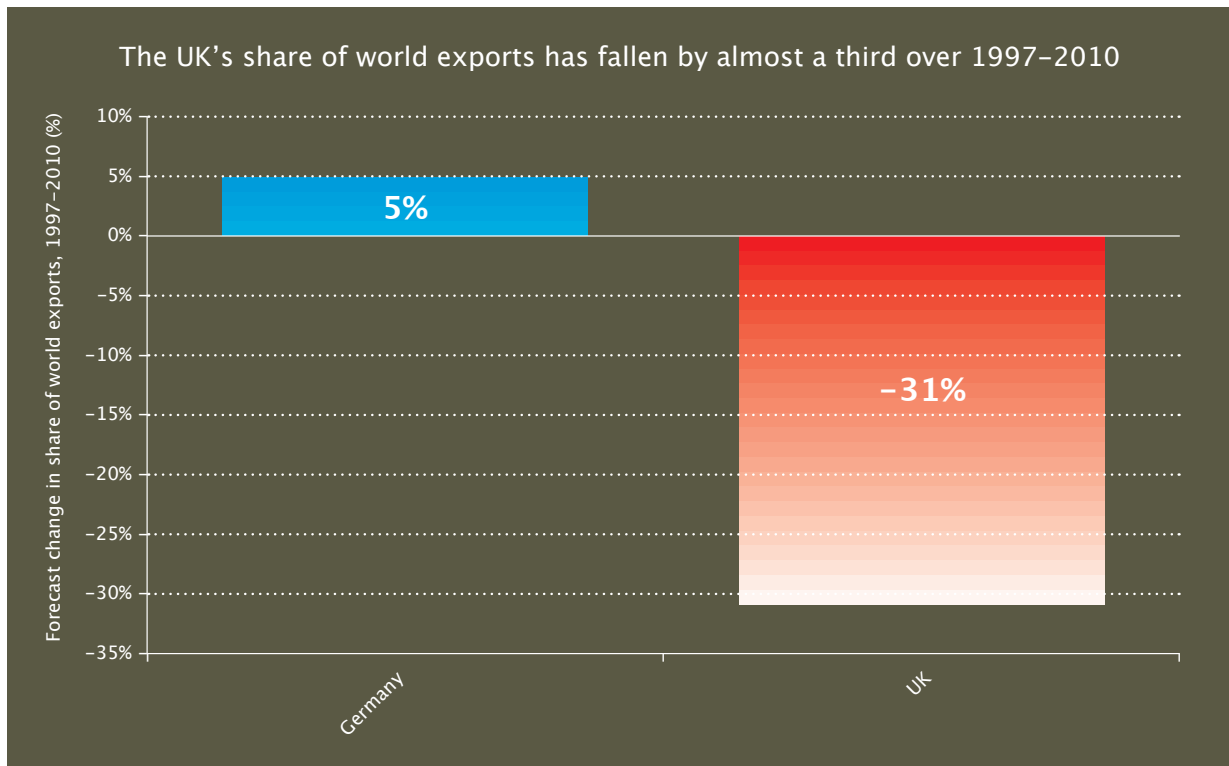
The first priority must be stability. The absence of a credible government plan to deal with the record budget deficit is creating uncertainty over Britain's credit rating and the future path of market interest rates. This instability undermines confidence and jeopardises investment. It risks tipping Britain back into recession.

A number of observers believe a credit rating downgrade is inevitable if we continue with current government policy, so urgent action is needed if we are to avoid higher borrowing costs. We will cut government spending to bring the deficit down and restore stability. That will enable the independent Bank of England to keep interest rates as low as possible for as long as possible. This combination of tight fiscal policy and active monetary policy is at the heart of our approach.

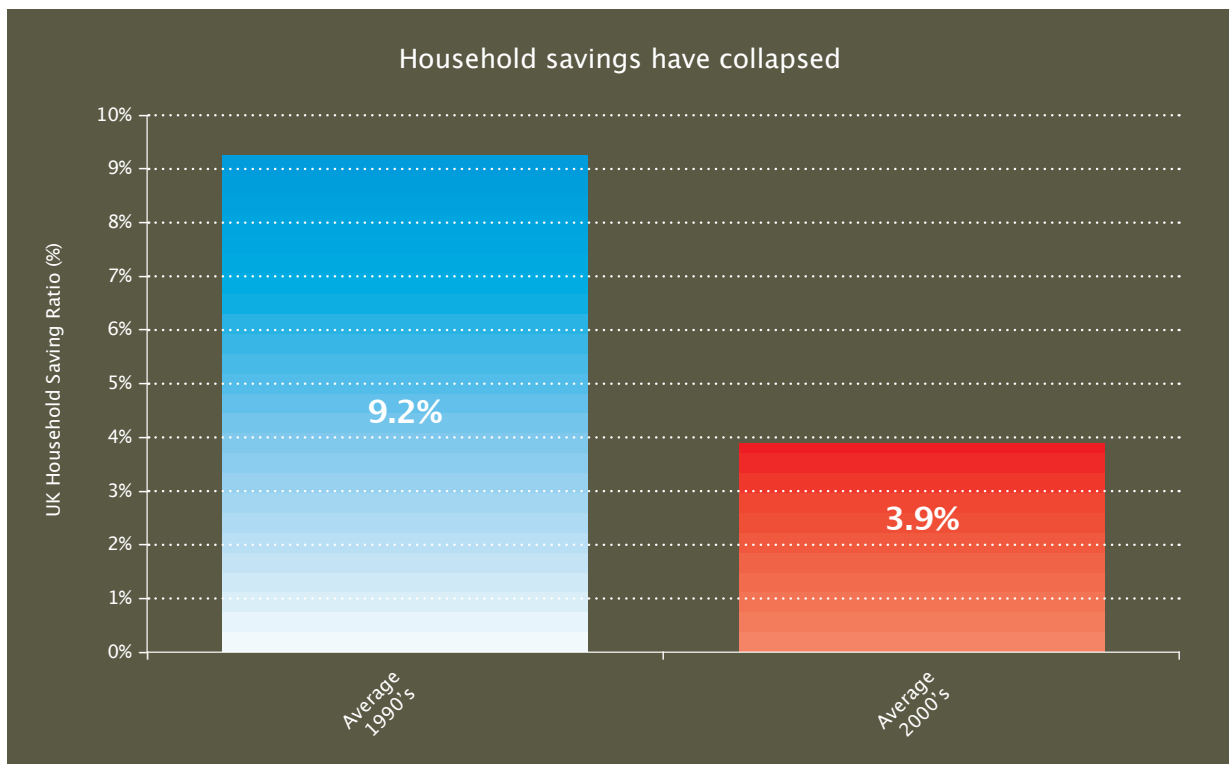
- A Conservative Government will hold an emergency Budget within 50 days of taking office to set out a credible plan to eliminate in large part the structural current budget deficit over a Parliament. The first measures will start to take effect this year. While the precise pace of consolidation must be determined in coordination with the independent Bank of England, the case for starting early to establish credibility is overwhelming.
- We will protect health spending in real terms and honour our commitments on international aid, but the plan will include cuts in many other departmental budgets, as well as a one year public sector pay freeze in 2011 excluding the one million lowest paid workers, bringing forward the date at which the state pension age starts to rise to 66 to no earlier than 2016 for men and 2020 for women, stopping paying tax credits to families with incomes over £50,000, cutting spending on Child Trust Funds for all but the poorest third of families and families with disabled children, and a cap on the biggest public sector pensions above £50,000.
- We will ensure that politicians show leadership with a 5% pay cut for Ministers followed by a 5 year freeze, and a 10% reduction in the number of MPs.
- We will set up an independent Office for Budget Responsibility to restore trust in Treasury forecasts, provide an independent audit of all Government liabilities, and hold the Government to account for its fiscal promises. Sir Alan Budd and Professor Ken Rogoff are helping us with its design.

2 Create a more balanced economy

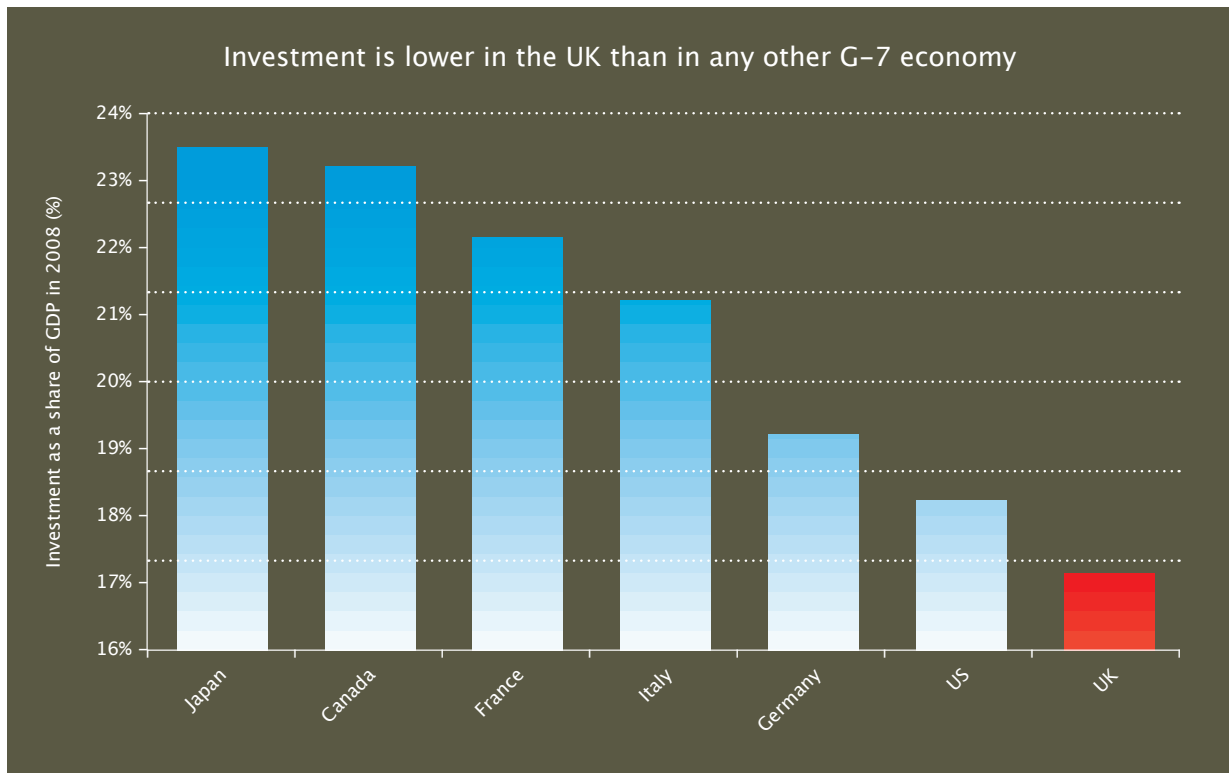
We will create the conditions for higher exports, business investment and saving as a share of GDP.



Source: OECD Economic Outlook No. 86, November 2009. Compares shares of world exports in goods and services between 1997 and 2010 (forecast). UK share of world exports in goods and services projected to fall from 5.6% to 3.8%.



Source: Office for National Statistics. Household and NPISH (non-profit institutions serving households) saving ratio as a percentage of available resources (ONS Code: RVGL). Average over 2000s defined as average 2000–2008, the latest date for which ONS data are available.



Source: World Economic Outlook database, October 2008, International Monetary Fund. Gross capital formation at market prices as a share of GDP. Data for 2008, latest date for which data is available.

- Our share of world exports has fallen by almost a third.
- Household savings have collapsed. The average household saving ratio has fallen from 9.2% in the 1990s to 3.9% in the last decade.
- The UK has the lowest investment as a share of GDP of any G-7 country.

For the last decade growth was too dependent on government spending and debt-fuelled consumption. The next decade must be different. A sustainable recovery must be driven by growth in exports and business investment.

Part of the solution is lower rates of corporate tax and a better environment for investment and wealth creation. But we must also champion exporters and encourage investment in the UK.

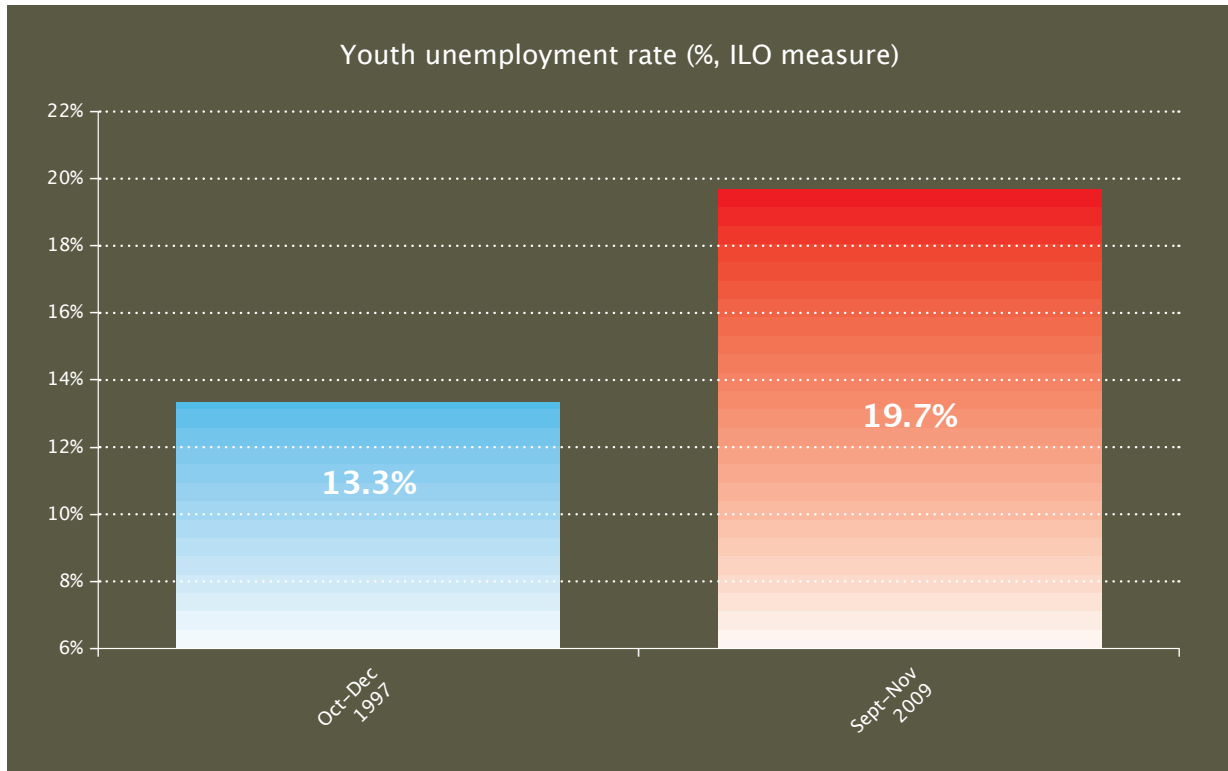
- We will make Britain Europe's leading hi-tech exporter with the help of Sir James Dyson's taskforce. The taskforce is considering measures to improve the quality of science, technology, engineering and maths teaching throughout the education system and encourage higher take-up at university level, reforms to improve technology funding at universities, and policies to improve the flow of early stage finance to hi-tech start-ups.
- We will improve the delivery of UKTI services, with a renewed focus on high priority sectors and markets where the return on taxpayer's money is highest. We will make the most of the expertise within our embassies abroad.
- We will regularly benchmark government support for exporters and inward investment against the services provided by our competitors. Government Ministers will be committed to developing trading relationships with key markets.
- We will work for the successful conclusion of the Doha trade round and support bilateral free trade negotiations between the EU and other countries.

Over the last decade Britain's national saving rate has consistently been one of the lowest in the OECD. The natural counterpart to higher exports and business investment is a structurally higher savings rate. Only by saving more as a country can we finance investment for the future without being dependent on unsustainable inflows of capital from abroad.

- We will restore our savings culture and encourage people to save more for retirement. We will work with employers and industry to support auto-enrolment into pensions for those on middle and lower incomes.
- We will help to stop the spread of means-testing by restoring the link between the state pension and average earnings. This is affordable because of our commitment to bring forward the date at which the state pension age will rise to 66.
- We will reward those who have saved for their retirement by ending compulsory annuitisation at age 75.
- We will raise the Inheritance Tax threshold to £1 million to help millions of people who aspire to pass something on to their children, and we will take 9 out of 10 first time buyers out of stamp duty by raising their threshold to £250,000. These will be paid for by a simple flat rate levy on all non-domiciled individuals in return for certainty over their future tax treatment.
- Over the longer term, we will reverse the effects on pension savers of the 1997 abolition of the dividend tax credit for pension funds.
- We will promote responsible consumer finance by creating a powerful Consumer Protection Agency, launching Britain's first free national financial advice service, capping excessive store card interest rates and ensuring that consumers are given much clearer information on credit card bills and advertising.

3 Get Britain working

We will reduce youth unemployment and reduce the number of children in workless households as a key part of our strategy for tackling poverty and inequality.



Source: Office for National Statistics.

Under Labour, youth unemployment has hit record highs, and one in five young people are unable to find a job. We are at risk of creating a lost generation of young people without the skills to participate in the workforce. At the same time economic inactivity is rising and over five million people are out of work and on benefits. Under Labour, the number of people living in severe poverty has risen by 900,000 to reach 5.7 million people (Income and Inequality Statistics, Institute for Fiscal Studies, 2009). Child poverty is rising and one in six children in the UK live in workless households. The UK has the highest proportion of children growing up in workless households of any country in Europe (Eurostat, 9 November 2009). Tackling entrenched worklessness is a key part of our aspiration to eliminate child poverty.

- Labour are planning to raise employer and employee National Insurance by 1% in 2011. Of all Labour's tax increases our first priority will be to try and avoid this tax on jobs.
- Any new business started in the first two years of a Conservative Government will pay no Employer National Insurance on the first ten employees it hires during its first year.
- We will create a single Work Programme for everyone who is unemployed, including the 2.6 million people claiming Incapacity Benefit who are not helped by existing programmes, with private and voluntary providers rewarded on a payment-by-results basis, as recommended by former Government welfare adviser and Shadow Minister for Welfare Reform, David Freud.
- In order to give young people the skills they need to get a sustainable job for the future, over two years we will fund 200,000 apprenticeships and pre-apprenticeships, 100,000 work pairings and 100,000 further education college places. We will provide 10,000 extra university places next year, paid for by

giving students incentives to pay back their student loans early on an entirely voluntary basis.

- We will set further education free by cutting excessive red tape, scrapping unnecessary quangos and creating a streamlined funding model where government funding follows the learner.
- The Enterprise Allowance Scheme in the 1980s provided some of our most successful entrepreneurs with their first break. We will build a network of business mentors and provide loans to would-be entrepreneurs, supporting self-employment and franchising as a route back into work.
- We will work to reduce the very high marginal tax rates faced by many people on low incomes who want to return to work or increase their earnings.

4 Make Britain open for business

We will improve Britain's international rankings for tax competitiveness and business regulation.

| Global Ranking | 1997 | 2010 |
|---------------------------------|-------------|-------------|
| Corporate tax rate | 11th lowest | 23rd lowest |
| Overall competitiveness | 7th | 13th |
| Burden of government regulation | 4th | 86th |
| Extent and effect of taxation | 4th | 84th |

Source: Corporate tax rate as per KPMG, Global Corporate and Indirect Tax Rate Survey, 2007 and 2009. Overall competitiveness, Burden of government regulation, and Extent and effect of taxation, World Economic Forum, Global Competitiveness Report, 1997 and 2009-10. 1997 Burden of government regulation refers to regulatory flexibility and efficiency of social programmes. 1997 Burden and effect of taxation refers to tax burden and evasion.

- In 1997 the UK had the 11th lowest corporate tax rate in the world; now it is only the 23rd lowest (KPMG, Global Corporate and Indirect Tax Rate Survey, 2007 and 2009).
- In 1997, the UK was 7th in the World Economic Forum's Global Competitiveness Report's overall competitiveness ranking. It has now slipped to 13th (World Economic Forum, Global Competitiveness Report, 1997 and 2009-10).
- In 1997, the UK was 4th in the World Economic Forum's Global Competitiveness Report's ranking for regulatory flexibility and efficiency of social programmes. Now it has slipped to 86th for the burden of Government regulation. (World Economic Forum, Global Competitiveness Report, 1997 and 2009-10).
- In 1997, the UK was ranked 4th in the World Economic Forum's Global Competitiveness Report for having the lowest tax burden and evasion. Now, it is ranked 84th for the extent and effect of taxation (World Economic Forum, Global Competitiveness Report, 1997 and 2009-10).

In 1997 Britain's tax system was one of the most competitive in the developed world. Over the last decade we have become progressively less competitive as other countries have cut their tax rates, and our tax system has become the most complex in the world.

- Because we believe in low taxes, we will ensure that by far the largest part of the burden of dealing with the deficit falls on lower spending rather than higher taxes.
- Our ambition is to create the most competitive corporate tax environment in the G20. To begin with we will cut the headline rate of corporation tax to 25p or lower and the small companies' rate to 20p, funded by reducing complex reliefs and allowances.
- We will make the UK a more attractive location for multinationals by simplifying the complex Controlled Foreign Companies rules, and will look to encourage Foreign Direct Investment into the UK. We will consult on the merits of moving towards a territorial corporate tax system that only taxes profits generated in the UK. We will consult on the best way to create the most attractive tax environment for intellectual property of any major economy that will encourage intellectual property to reside in the UK.

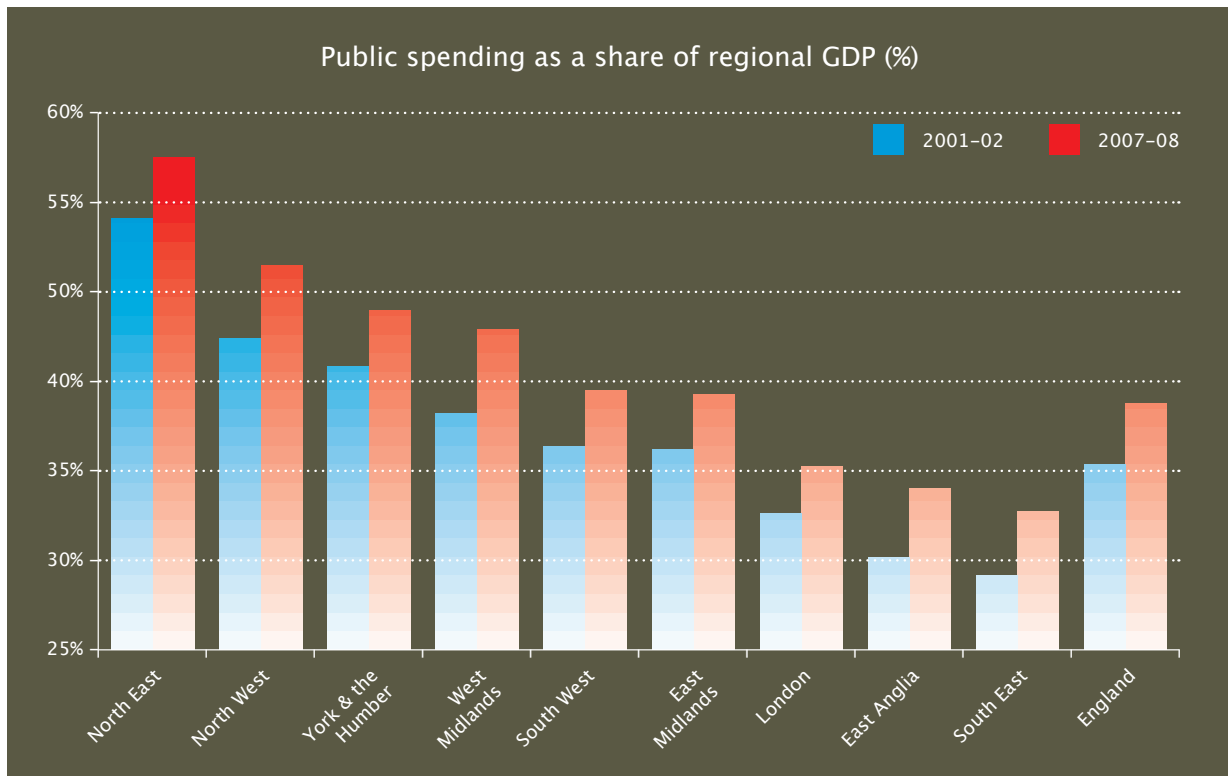
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- We will restore the tax system's reputation for simplicity, stability and predictability. In our first Budget we will set out a five year road map for the direction of corporate tax reform, providing greater certainty and stability to businesses. We will publish all technical changes to the tax system by the Pre-Budget Report in advance of each Budget for consultation and proper Parliamentary scrutiny, and we will create an independent Office of Tax Simplification to suggest simplifications to the existing tax system.
 - We do not regard the new 50p tax rate as a permanent feature of the tax system, but as George Osborne said in his Conference speech, we could not even think of abolishing the 50p rate on the rich while at the same time asking many of our public sector workers to accept a pay freeze.

Increasing amounts of red tape and complex regulation have eroded Britain's reputation as a good place to invest, create jobs or start a business. And Britain's complex and unwieldy planning system has long been cited as a significant barrier to growth and wealth creation.

- We will reduce the burden of red tape on business with a 'one in one out' rule for new regulations, mandatory sunset clauses and regulatory budgets for departments.
- We will reduce the number of forms needed to register a new business - moving towards a 'one-click' registration model – with the aim of making Britain the fastest place in the world to start a business. We will also end restrictions on people starting a business in social housing, to enable social tenants to become entrepreneurs.
- We will open up government procurement to small and medium sized businesses by reducing administrative requirements.
- We will make small business rate relief automatic to reduce admin costs and encourage take up.
- We will create a presumption in favour of sustainable development in the planning system, with incentives for local communities to foster a pro-development culture, greater certainty for developers with a single unified local tariff, and a fast track process for major infrastructure projects with inquiries subject to binding timetables.

5 Ensure the whole country shares in rising prosperity

We will raise the private sector's share of the economy in all regions of the country, especially outside London and the South East.



Source: Forecasting Eye, centre for economics and business research ltd, 11 March 2008.

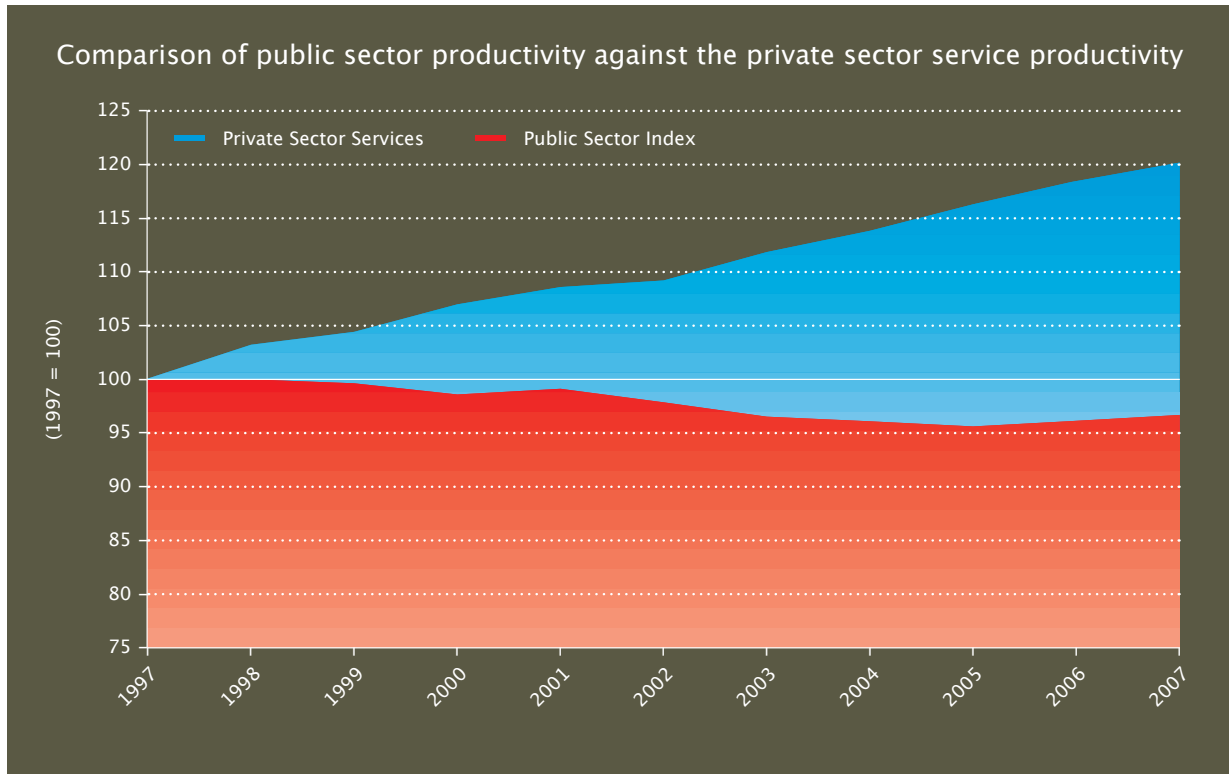
Too many areas of the UK lack a vibrant private sector and are too dependant on public spending. These regional imbalances have got worse over the last decade, despite billions of pounds spent by the Regional Development Agencies. We will need to work with local government, and with the Scottish Parliament, Welsh Assembly and Northern Ireland Assembly in this area.

- We will create a stable and transparent framework to encourage private sector investment in infrastructure. We support Crossrail. We will begin work on Britain's first ever North-South high speed rail line to connect London and Heathrow with Birmingham, Manchester and Leeds, increasing capacity and reducing travel times. Our aspiration is to go further in years to come, to a line that stretches north to Newcastle and Scotland and to a network connecting many of the UK's major cities in a national high-speed network. We will also reform the way our existing railways are run, with longer franchises to encourage private sector investment in much needed improvements.
- We will be the first country in Europe to extend superfast 100 mbps broadband across most of the population by opening up network infrastructure, easing planning rules and boosting competition, acting with the BBC pursuant to its sixth public purpose of delivering to the public the benefit of emerging communications technologies and services.

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- We will reform regional business support to create business-led local economic partnerships that will be more responsive to local business needs. At the same time we will re-establish clear national policy leadership for key sectors such as aerospace, pharmaceuticals, IT, the creative industries, high value manufacturing and hi tech engineering that generate high-quality jobs around the whole country.
 - We will establish new technical Academies in each of the 12 biggest cities in England, with the long-term ambition to have one in every area of the country to provide credible, high quality vocational education.

6 Reform public services to deliver better value for money

We will raise productivity growth in the public sector in order to deliver better schools and a better NHS.



Source: Office for National Statistics, Productivity Statistical Bulletin, July 2009; Office for National Statistics, Total Public Service Output and Productivity, June 2009.

Public sector productivity has fallen since 1997, acting as a drag on growth and reducing the quality of our public services. If productivity in the public sector had grown at the same rate as in private sector services we could now have the same quality of public services for £60 billion less each year. This shows that higher spending does not automatically lead to better services.

In 1997, the UK was ranked 5th in the world for the efficiency of government spending by the World Economic Forum. Now, the UK's ranking on this metric has plummeted to 75th in the world (World Economic Forum, Global Competitiveness Reports, 1997 and 2009-10).

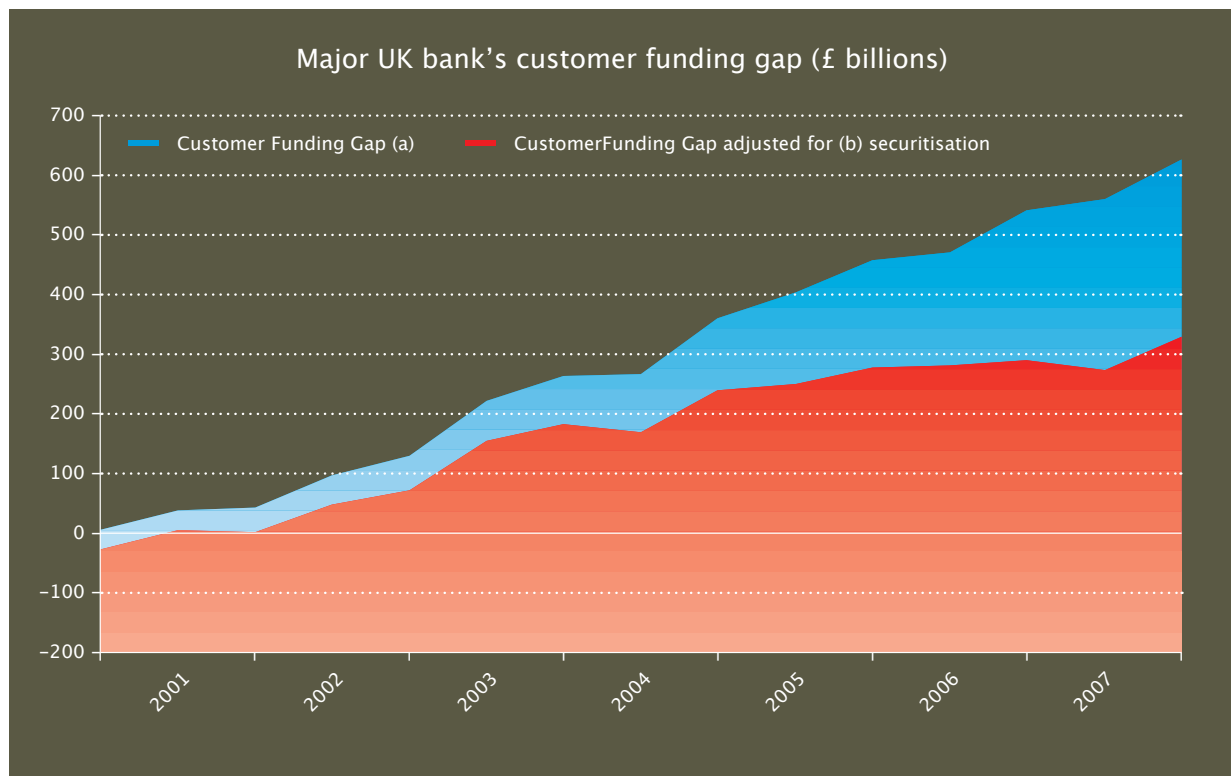
We will reform central government and our public services in order to deliver higher productivity and better value for money for taxpayers. We will expect productivity improvements to match the best of the private sector.

- We will raise public sector productivity by increasing diversity of provision, extending payment by results, giving more power to consumers and improving financial controls.
- Our radical school reforms will break open the state monopoly on taxpayer-funded education by removing the obstacles that prevent new providers setting up the new state schools that parents want.
- Our welfare and prison reforms will bring in private and voluntary providers who will be paid by results.

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- Our health reforms will empower patients, making service providers accountable for results, bring in new providers, and use payment for results to incentivise quality, outcomes and value.
 - We will improve financial discipline by introducing a fiduciary obligation to taxpayers in civil service employment contracts, strengthening the role of Finance Directors within government and implementing clear financial performance targets for senior civil servants. The Treasury will return to its core role of ensuring value for money for taxpayers.
 - We will cut the cost of bureaucracy in Whitehall and quangos by one third over the course of a Parliament.
 - We will use transparency to drive efficiencies by publishing all items of spending over £25,000 online.

7 Create a safer banking system that serves the needs of the economy

We will reform the regulation and structure of the banking system to ensure lower levels of leverage, less dependence on unstable wholesale funding and greater availability of credit for SMEs.



Source: Dealogic, published accounts and Bank of England calculations. (a) Data exclude Nationwide. (b) Customer funding gap less securitised debt. Where not available, stocks of securitisations are estimated from issuance data.

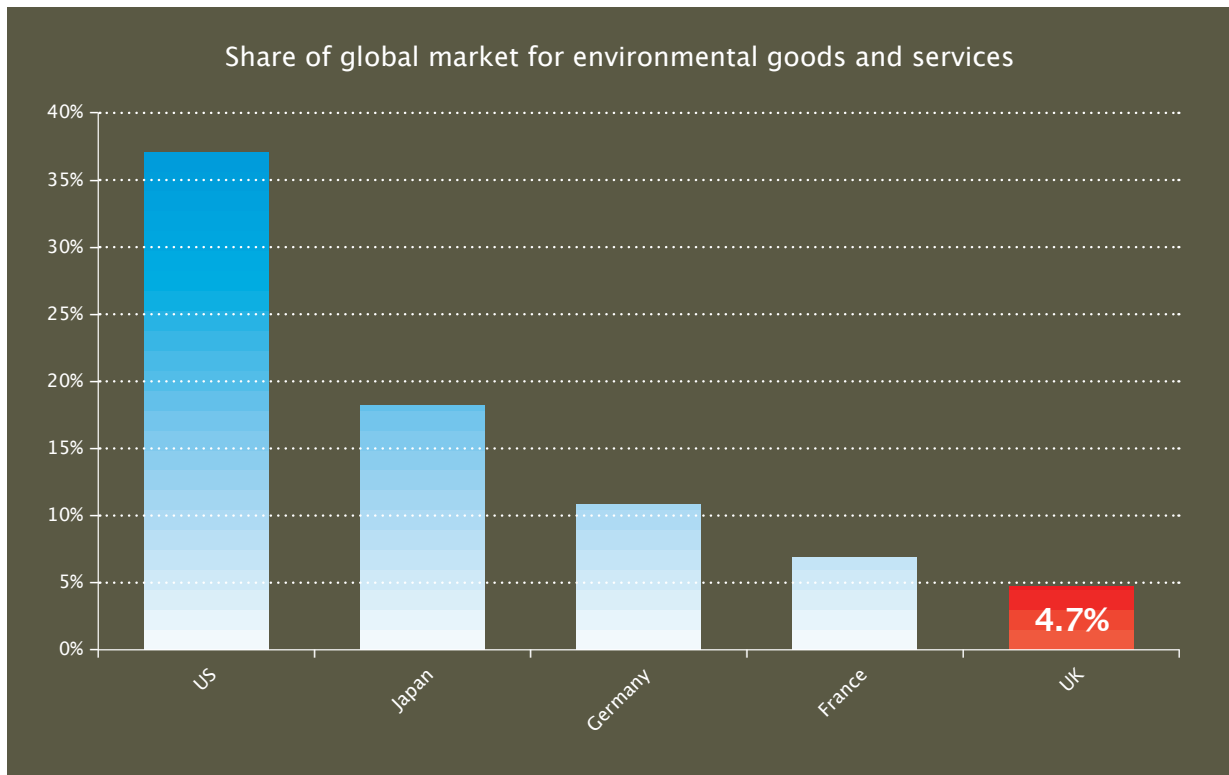
- In the run up to the crisis British banks became amongst the most indebted, most leveraged in the world, with tangible assets 39 times tangible equity compared to only 17 times even in US banks. This credit boom turned into a credit bust, with a significant fall in credit availability to small and medium sized enterprises (SMEs).
- Lack of access to credit remains a major problem for SMEs. While credit conditions have eased in recent months from very low levels, there remains a body of evidence which raises questions about the access of smaller firms to credit markets. For example, the Bank of England's latest Trends in Lending survey found that the flow of net lending to UK businesses remained negative in October 2009 (Trends in Lending, Bank of England, December 2009). Its most recent Credit Conditions Survey found that credit conditions remained weak for small businesses, with a net balance of only 1.9% of small firms reporting an improvement in the availability of credit on the previous quarter, and the proportion of loan applications being approved falling (Credit Conditions Survey Results, Q4 2009, Bank of England, 31 December 2009).

The financial services sector is one of our most globally successful industries, and we want it to succeed. Indeed, we want the City to be the leading location for global finance. But the financial sector must not put the stability of the whole economy at risk. Since its business is global, and because we do not want the City or our other important financial centres to suffer from competitive disadvantage, we believe that it is best to act internationally rather than unilaterally. We need fundamental reform of our failed regulatory system, while avoiding badly designed regulations that will simply damage our competitiveness. We also need to ensure that the financial sector is capable of supplying the affordable credit that the economy needs to grow, especially to SMEs which find it more difficult to access non-bank sources of credit.

- We will abolish the failed tripartite system of regulation and put the Bank of England in charge of prudential supervision. We will restore the Bank's historic role in monitoring the overall growth of credit and debt in the economy. A new Consumer Protection Agency will take over responsibilities for protecting consumers of financial services that are currently split between the FSA and the OFT.
- We will pursue international agreement to put in place an insurance fee on banks and to prevent retail banks from engaging in large scale proprietary trading that puts the stability of the bank at risk.
- We will increase competition in the banking industry, starting with a competition review of the sector that will inform our strategy for selling the government stakes in state-controlled banks.
- We will use Government guarantees to create more diverse sources of affordable credit for SMEs, building on our proposals for a big, bold and simple National Loan Guarantee Scheme.

8 Build a greener economy

We will reduce UK greenhouse gas emissions and increase our share of global markets for low carbon technologies.



Source: JEMU, Global Environmental Markets and the UK Environment Industry, 2003; cited in Bridging the Gap between Environmental Necessity and Economic Opportunity: First Report of the Environmental Innovations Advisory Group, Department of Trade and Industry, November 2006.

Labour have talked tough on climate change, but tough action has not followed. Despite three White Papers, a multitude of strategies and endless new announcements, the UK now gets more energy from fossil fuels than it did in 1997; the UK's performance on emissions has been criticised by environmental groups; and the UK has the worst record of any major EU nation when it comes to renewable energy, above only Luxembourg and Malta (Hansard, 8 June 2009, Col. 727WA).

We need to cut our carbon emissions to tackle the challenge of climate change. But the low carbon economy also provides exciting opportunities for British businesses if we can develop indigenous industrial capability instead of simply importing solutions from other countries. We will encourage private sector investment to put Britain at the forefront of the green technology revolution, creating jobs and business opportunities across the country.

- We will create Britain's first Green Investment Bank, which will draw together money currently divided across existing government initiatives, leverage private sector capital to finance new green technology start-ups and back the bright ideas of the future. Lord Stern has agreed to advise us in the creation of this Bank.
- We will safeguard Britain's energy security and reduce our exposure to volatile fossil fuel prices by ensuring that we have a diverse range of electricity generating capacity and a resilient energy infrastructure.
- We will transform our electricity networks with 'smart grid' and 'smart meter' technology that automatically matches supply and demand, allowing a huge increase in renewable power.

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- We will create a decentralised energy revolution by introducing a system of feed-in tariffs to encourage micro-generation of electricity.
 - We will expand offshore wind and marine power and provide government backing for a network of large-scale Marine Energy Parks.
 - We will act urgently to accelerate the demonstration of carbon capture and storage technology, in which Britain should have a leading position but is being overtaken by other countries that lack the skills, research, industrial and geographical advantages that we enjoy.
 - We will facilitate the deployment of economically viable nuclear power by speeding up the planning process.
 - We will give energy companies incentives to build a national recharging network for electric cars.
 - We will give every household an entitlement of up to £6,500 worth of energy efficiency investments, financed by energy providers and paid for from part of the resulting savings in energy bills.
 - We will increase the proportion of tax revenues accounted for by environmental taxes, but any additional revenues from new green taxes that are principally designed to change behaviour will be used to reduce the burden of taxation elsewhere.
 - We will reform Labour's ineffectual Climate Change Levy so that it is more closely linked to carbon emissions in order to provide the right incentives for investment in low carbon technologies.

