

Budget 2003

What Budget 2003
means for
Northern Ireland

April 2003



HM TREASURY

Northern Ireland

Budget 2003

Building economic strength and social justice in the United Kingdom



Budget 2003 sets out the long-term reforms that will leave all nations and regions of the UK well placed to deal with the impact of global events, and benefit from the coming global upturn, to build a United Kingdom of economic strength and social justice that is enterprising, flexible and fair. In Northern Ireland, while the Northern Ireland Assembly is suspended, the Government is working through the Northern Ireland Office to deliver this objective and looks forward to working in partnership with the Northern Ireland Assembly again when the current suspension is ended.

In an integrated world economy, businesses and individuals must adapt quickly to change so that the nation's growth and prosperity can be maintained. Flexibility, of people to develop the skills needed to succeed in the modern workplace, and of businesses to adapt to changing demands and new technologies is key to achieving the Government's goal. Flexibility must also be matched with fairness so that everyone in Northern Ireland has the chance to fulfill their potential.

Employment

The Government's objective is to increase employment opportunity for all.

Key announcements in Budget 2003 include measures to create jobs and move Northern Ireland closer to full employment. There are now more people in work than ever before and unemployment is at its lowest for a generation. Since 1997, the New Deal programmes have helped many people in Northern Ireland into work. This has helped:

- employment to rise by 64,000; and
- unemployment to fall by 11,000.

Enterprise

To further promote enterprise in Northern Ireland, Budget 2003 includes:

- a series of measures to simplify VAT for businesses, benefiting around 13,000 businesses in Northern Ireland;

- new proposals to help small firms raise the finance they need to start up, develop and grow, including a consultation on the scope for introducing Small Business Investment Companies;
- further cuts in red tape to help businesses, public services and the voluntary sector; and
- a new package of training support for small businesses delivered in partnership with high-street banks.

Fairness for pensioners

The Government is committed to developing policies which enable pensioners to share in the country's rising prosperity and which tackle pensioner poverty. To further support pensioners in Northern Ireland, Budget 2003 announced that:

- 78,000 low-income pensioner households will benefit from an increase in the Minimum Income Guarantee from this month in line with earnings to £102.10 for single pensioners and £155.80 for couples;
- 100,000 pensioner households in Northern Ireland will be eligible for the new Pension Credit from October 2003, which ensures that pensioners who have saved for their retirement benefit from having done so;
- 50,000 households in Northern Ireland with someone aged 80 or over will be eligible to receive an extra £100; and
- hospital inpatients will receive extended pension entitlements.

As a result of the Government's measures, including the Pension Credit, which was first announced in Budget 2000, on average, from October 2003 pensioner households will be £1,250 a year better off in real terms than in 1997.

Public services

Budget 2003 also reaffirms the Government's commitment to significant extra investment in public services.

The Government's plans to increase investment on public services, announced last year, will ensure that by 2005–06 provision in Northern Ireland to invest in modern public services will be £1.2 billion higher than in 2002–03. The Northern Ireland Executive published its spending plans last autumn including additional provision for health and social services, education, employment and learning, and economic and rural development.

To deliver the largest ever sustained spending growth in the history of the NHS while meeting the fiscal rules, last year's Budget announced a 1 per cent increase in employers' and employees' national insurance contributions to be paid from April 2003.

Maintaining economic stability

The world economy has continued to face testing times over the past year, with uncertainty, particularly over the conflict in Iraq, affecting business and investment around the world. As a result, global growth, and especially growth in the Euro-area, has remained weak, with consequences for the UK economy. However, Northern Ireland has benefited from the Government's economic reforms, which have helped to ensure that the economy remains well placed to sustain steady and stable growth and to benefit when the world recovery begins. The Budget shows that:

- **the economy** is expected to grow by 2 to 2½ per cent this year, as the world economy recovers, rising to 3 to 3½ per cent in 2004 and 2005;
- **inflation** is set to remain low and close to the Government's target; and
- **the public finances** remain sound and the Government is on track to meet its strict fiscal rules. Borrowing at £27 billion is under control, and debt is lower than that in any other G7 major industrialised economy.

Regional policy

The argument for a new approach

As the world economy becomes more interdependent, every nation and region faces more intense global competition. The most successful nations and regions will be those that have the flexibility to continuously adapt to change and demonstrate that their skills, innovation and enterprise are world class.

To meet the new challenges of the global economy, a distinctive approach for Northern Ireland should harness indigenous strengths, tackle weaknesses in education, innovation, skills and employment, and promote flexibility.

At the centrepiece of its policies, the emphasis in Northern Ireland is on the Reinvestment and Reform Initiative (RRI) which was agreed between the Prime Minister, the Chancellor of the Exchequer and the then First Minister and

Deputy Minister in May 2002. The plans recognise that investment in Northern Ireland's infrastructure is hugely important to both economic and social development. Roads and public transport, hospitals and school buildings and the water and sewerage systems all need significant new investment.

By bringing together mainstream capital expenditure, borrowing and the use of PPPs, a Strategic Investment Programme has been announced which will enable around £2 billion of new investment to start in the next three years. A Strategic Investment Board is being set up to advise on implementing the programme.

Budget 2003: increasing the focus on the regional agenda

Budget 2003 further increases the focus on the regional agenda. The Government intends to examine the scope for relocating civil service and other public sector staff. Past reviews have looked at the location of civil service jobs. Now, the increased local and regional focus to policy-making, and the need for cost-effectiveness imply a case for reviewing the location of civil servants and other public service workers. This could help achieve a better regional balance of government activity and release resources for frontline public service delivery.

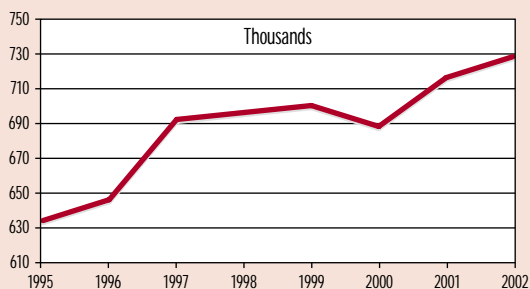
The Chancellor and Deputy Prime Minister have commissioned a study, by Sir Michael Lyons, to which each Government department will be required to contribute in the run-up to the next Spending Review.

The Government reviewed the public sector labour market as part of the 2002 Spending Review and has proposed that public sector pay systems include a stronger regional and local dimension, where appropriate. Where responsibility for pay is devolved to the devolved administrations, it will be for the devolved administrations to decide what is appropriate in their circumstances. The Government plans to produce regional price indexes showing differences in regional inflation rates. Further details will be announced in the coming months.

Employment opportunity for all in Northern Ireland

The Government wants to promote a dynamic and flexible labour market in Northern Ireland that equips people to adapt to changing economic conditions and delivers support to all groups and areas throughout Northern Ireland.

Employment in Northern Ireland



Source: Labour Market Survey

Northern Ireland has benefited from rising employment and falling unemployment. A crucial component of these changes has been the Northern Ireland Executive's New Deal programme, which will continue to be developed and improved.

While the Government is promoting a more flexible labour market, this should not,

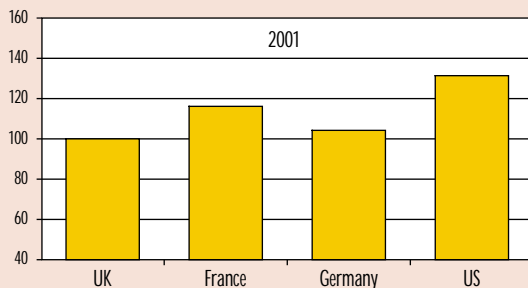
however, be at the expense of fairness to workers. Paid from this month, the Working Tax Credit will help to make work pay for people on low incomes, with or without children. Last month the Government accepted the Low Pay Commission's recommendation to raise the National Minimum Wage to £4.50 per hour for workers aged 22 or over. From October 2003, this will benefit 50,000 low-income workers in Northern Ireland.

Productivity and enterprise in a flexible Northern Ireland economy

Output

The amount of output produced per worker – productivity – has historically been lower in the UK than in other major economies. Since the mid-1990s, the productivity gap with Japan has closed and Japan now has a productivity gap with the UK, the gap with Germany has almost been eliminated and with France has narrowed.

Productivity – output per worker



Source: Office for National Statistics/HM Treasury

Despite the progress made, the UK and the rest of Europe still have a productivity gap with the USA. Closing this gap will help to deliver greater economic prosperity and rising

living standards in years to come. In the modern global economy, faster productivity growth requires flexible and dynamic businesses and a highly skilled workforce.

Skills

In Northern Ireland, 57 per cent of pupils achieved 5 GCSEs at grades A* to C in 2001 compared to a UK average of 51 per cent. To raise skills levels in Northern Ireland, which is crucial to productivity growth, the Northern Ireland Department for Employment and Learning is acting to improve the skills of young people entering the workforce, and increase opportunities for those already in the workforce to acquire new skills. In its spending plans, **Northern Ireland has invested more in its Essential Skills Strategy** to tackle literacy and numeracy problems as identified in the work of the Employability Task Force.

Research & development

In Northern Ireland, business spending per head on R&D is £89, which is well below the UK average. To encourage Northern Ireland to become a centre of invention and innovation and to develop clusters of special skills and technologies, the Government is moving away from centrally administered innovation policies. Instead, regional economic strategies will encourage local clusters and the sponsorship of technology transfer between universities and companies, increasingly building on regional research and industrial capacities supported by the Government. In addition, Budget 2003:

- **introduces reforms to improve the operation of existing R&D tax credits** to ensure that more companies can claim this relief on a wider range of expenses; and
- **launches a consultation on improving the definition of R&D** used for the tax credits to ensure it remains consistent with technological developments and is competitive internationally.

The Secretary of State for Trade and Industry has asked Sir Tom McKillop (as chair of the first Regional Science and Industry Council) to work with the Regional Development Agencies to ensure that best practice in promoting innovation and knowledge transfer is shared and spread rapidly between the regions. In Northern Ireland the Department of Enterprise, Trade and Investment aims to promote a balanced, competitive, innovative, knowledge based and fast growing economy, including through the activities of Invest Northern Ireland.

Small businesses

The small business start-up rate is 28.3 per 10,000 population in Northern Ireland, compared to a UK average of 36.8. Budget 2003 announces:

- **new proposals to help small firms raise the finance** they need to start up, develop and grow;
- **reforms to reduce red tape and simplify tax** for small businesses, to help break down the barriers to business success;
- **a new package of training support** for small businesses delivered in partnership with high-street banks;
- **a series of measures to simplify VAT for businesses**, including an increase in the registration threshold in line with inflation;
- **further reform of capital gains tax**, including an extension of business assets taper relief to property let to sole traders; and
- **an extension of 100 per cent first year capital allowances for small businesses investing in ICT** until 31 March 2004, available to over 89,000 small businesses in Northern Ireland.

Enterprise Areas

A key element of the Government's enterprise policy is the recognition that social attitudes, the business environment and specific market failures can present significantly higher barriers to enterprise within the UK's disadvantaged communities. Moreover, it is in these communities that the benefits of enterprise will have the greatest social impact. The Government has responded with a series of measures concentrated on 2,000 Enterprise Areas, the most deprived communities across the UK. **237 Enterprise Areas are located in Northern Ireland.** Budget 2003 announces the following new measures for Enterprise Areas:

- **stamp duty is being abolished** from all non-residential property transactions in these areas from 10 April 2003;
- **action by HM Customs and Excise to improve its services to businesses in Enterprise Areas**, expanding the national programme of Business Advice Open Days to include a number of satellite events in Enterprise Areas;
- **accrediting 11 community development finance institutions for community investment tax relief**, allowing them to raise extra capital

to lend to small businesses, cutting the cost of investing in disadvantaged areas;

- to encourage further business investment in Enterprise Areas, **the Government is considering how enhanced capital allowances for particular types of expenditure in these areas might be used to tackle specific market failures**, and the state aids aspects of any such measures; and
- **consideration of the scope for investing in a new community development venture capital fund** to increase the amount of risk capital available in disadvantaged areas.

Building a fairer society for Northern Ireland

A flexible and dynamic economy must go hand-in-hand with a fairer society so that everyone has the chance to fulfill their potential. The Government is committed to tackling child and pensioner poverty, providing support for families with children and ensuring security for all in old age.

Child and Working Tax Credits

Between 1998–99 and 2001–02 the numbers of children in the UK in low-income households fell by 400,000 after housing costs and by 500,000 before housing costs from 4.2 million and 3.1 million respectively.

Paid from this month, and announced in Budget 2002, the Child Tax Credit will provide a secure stream of income to help families with children and tackle child poverty. 220,000 families in Northern Ireland will be eligible for the new Child Tax Credit. There will also be **additional funding for the Discretionary Social Fund** over the three years to 2005–06 to help those on low incomes manage their finances.

Budget 2003 announced further measures to build a fairer society:

- **a new Child Trust Fund** giving every new born child £250, or £500 for the poorest, ensuring that every child has money in the bank to spend at the age of 18; and
- **an increase in Child Benefit** to £16.05 for first child and £10.75 for subsequent children – at least an extra £5 per week for every family above the 1997 levels benefiting 230,000 families in the Northern Ireland.

Support for pensioners

From October 2003, the new Pension Credit will provide extra support for low and modest-income pensioners and reward those who have saved for retirement. In addition, Budget 2003 announces for Northern Ireland that:

- **over 900,000 pensioners will benefit from a rise in the full Basic State Pension** by over £100 a year for singles and £160 for couples from this month;
- **78,000 low-income pensioner households will benefit from an increase in the Minimum Income Guarantee** from this month in line with earnings to £102.10 for single pensioners and £155.80 for couples;
- **100,000 pensioner households stand to benefit from the new Pension Credit** – from the age of 65, single pensioners with income up to £139 a week and couples up to £203;
- **50,000 households with someone aged 80 or over will be eligible to receive an extra £100** in addition to the £200 winter fuel payment throughout this Parliament; and
- to help vulnerable pensioners, **an extension to 52 weeks of the period over which pensioners in hospital receive their full State Pension.**

As a result of the Government's measures, including the Pension Credit, on average, from October 2003 pensioner households will be £1,250 a year better off in real terms than in 1997.

Fairer tax and benefit system

The Government is also creating a modern and fair tax and benefit system which raises sufficient revenue for public services and ensures that everyone pays their fair share of tax. Budget 2003:

- **clamps down on tax fraud and avoidance** to protect government revenues and improve fairness by ensuring that the burden of tax does not fall unfairly on taxpayers who pay their fair share;
- **raises duties on tobacco, beer and wine in line with inflation**, and freezes the duty on spirits; and
- **abolishes bingo duty** and replaces it with a new tax on the gross profits of bingo companies.

High quality public services for Northern Ireland

The Government is providing new investment to modernise the UK's public services. Last year it set new plans for an extra £63 billion of spending on public services by 2005–06. Budget 2003 describes how the 1 per cent increase in employers' and employees' national insurance contributions, announced last year and paid from this month, will go towards a better health service. The Northern Ireland Department of Health, Social Services and Public Safety is taking forward its plans for improving health services in Northern Ireland. The Government is determined that every pound of public spending should deliver the best possible return in high quality services and resources are therefore matched with reform.

In addition, Budget 2003:

- **provides £332 million for counter-terrorism** work by the emergency services, on top of £3 billion to pay for military obligations in Iraq; and
- **promotes a better balance of economic activity across the nations and regions**, with steps to ensure that public sector wages reflect regional factors.

From 14 April, the Government is improving transparency for the public, with a regular new report on the Treasury website of government departments' performance against their public service improvement targets.

Protecting the environment in Northern Ireland

Economic growth and social progress must be achieved while protecting the environment so as to ensure a better quality of life for current and future generations. To protect and improve the environment, Budget 2003:

- **defers an increase in the main road fuel duties**, in line with inflation, until 1 October 2003 because of recent high and volatile oil prices;
- **introduces a new lower rate of vehicle excise duty (VED)** for the cleanest vehicles and increases car VED by £5;
- **introduces new tax incentives** to encourage business investment in energy-saving technologies and to promote sustainable water use; and

- **promotes environmentally-friendly means of waste disposal**, such as recycling, by increasing the tax paid by businesses that dispose of waste to landfill and using the additional tax revenues to help businesses manage better the waste they create.

Household income

- Compared with last year, a single earner family on median earnings of £21,400 and with two children will be, overall, nearly £260 a year better off as a result of new tax credits, even after paying more towards the NHS as a result of the 1 per cent rise in national insurance contributions announced last year and paid from this month.
- As a result of all tax and benefit reforms since 1997, from April 2003, families with children are, on average, £1,200 a year better off, while those in the poorest fifth of the population are, on average, £2,500 a year better off in real terms. A single earner family on average earnings of £28,600 and with two children is £275 a year better off in real terms.

As a result of all personal tax and benefit measures introduced since 1997, by October 2003, in real terms:

- households in Northern Ireland will be, on average, £22.67 a week better off.

Further information and all public documents relating to the Budget may be found on the Internet at the following addresses:

HM Treasury
Inland Revenue

www.hm-treasury.gov.uk
www.inlandrevenue.gov.uk