

# Pre-Budget Report



## The strength to take the long-term decisions for Britain:

### Seizing the opportunities of the global recovery

The Government's economic objective is to build a strong economy and a fair society, where there is opportunity and security for all. The Pre-Budget Report sets out the next stage of reforms the Government is taking to strengthen economic growth, and promote flexibility and fairness in all the regions and nations of the UK.

### Maintaining a stable economy

The Government's economic reforms have helped the UK to maintain economic stability and steady growth through a challenging period for the global economy. The UK is now well placed to benefit from the opportunities that the global economy will bring:

- the economy is forecast to grow by 2.1 per cent this year as the world economy recovers. The economy is expected to accelerate next year, growing by 3 to 3½ per cent in both 2004 and 2005;
- inflation is set to remain low and stable. The Pre-Budget Report announced that the Bank of England will move to a new inflation target based on the Consumer Prices Index (CPI). The new target will be 2% CPI; and
- the public finances remain sound and the Government is on track to meet its fiscal rules. Borrowing will be £37 billion this year and is then expected to decline, and debt is lower than in any G7 country.

### Regional policy

Building on this stability, the Government has made significant progress towards establishing the framework for a modern regional policy designed to strengthen regional productivity and employment and, therefore, to reduce regional disparities. Key to this regional policy agenda is the Government's high-level target to make sustainable improvements in the economic performance of all English regions and, over the long term, reduce the

persistent gap in growth rates between the regions. In Scotland, the Government is working with the Scottish Executive to promote economic growth, full employment and prosperity for all the people of Scotland.

The Government believes that it is not possible to run economic policy or to deliver strong public services that meet public needs from the centre using a one-size-fits-all solution. Drawing on each country and region's distinctive strengths, and reflecting their varied needs and priorities, the Government believes that each country and region should be enabled the capacity, leadership, flexibility and policy levers to deliver on its distinct objectives.

To enable each country and region to meet its objectives, the Government's approach is to establish and develop efficient, innovative and accountable sub-national institutions with real freedoms and flexibilities.

In Scotland, the establishment in 1999 of the Scottish Parliament and Scottish Executive was the foundation stone of this approach. Since its creation, the Scottish Executive has helped promote employment, entrepreneurship, skills and regeneration. It is promoting devolved Scottish economic policies through its Smart, Successful Scotland strategy. The Government is working with the Scottish Executive to further enhance flexibility and productivity.

## **Pre-Budget Report 2003: the regional agenda**

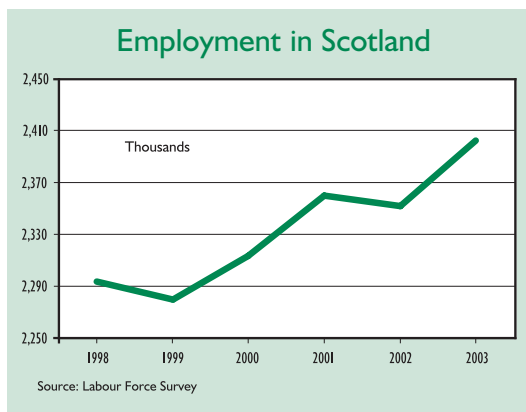
As an important contribution to the regional policy agenda, the Government has commissioned two independent reviews. The independent review of public sector relocation, being led by Sir Michael Lyons, will report in March 2004. He will shortly publish evidence which demonstrates that relocation can have a positive economic impact on those regions receiving Government activity. **The Government has committed to taking forward relocation as a key strand of the public service reform agenda.**

Christopher Allsopp's independent review of statistics required for economic policymaking published a first report alongside the Pre-Budget Report. A key part discusses the regional information and statistical framework needed to support the Government's regional economic performance target.

## **Delivering high employment in Scotland**

The Government's long-term goal is employment opportunity for all. The Government has introduced measures to promote a dynamic and flexible labour market in Scotland in which everyone can take advantage of

opportunities to achieve their full potential. Since 1997, the New Deal has helped over 113,000 people in Scotland into work. This has contributed to a 5.8 per cent rise in employment and a 22.6 per cent fall in unemployment in this period.



The Government has introduced a number of reforms to improve work incentives and provide

support for those on low incomes. The Working Tax Credit, introduced in April 2003, helps to make work pay for people on low incomes and has already helped over 161,000 families in Scotland. As announced in the Budget 2003, the National Minimum Wage was increased to £4.50 an hour in October 2003. The Government is now taking further steps to deliver high employment in Scotland by:

- **enhancing help for lone parents through increasing the number of work-focused interviews** that lone parents with children aged 14 or over are required to attend, which will build on the help and support already received by 28,250 people in Scotland through the New Deal for lone parents;
- **giving greater discretion for Action Teams**, including the teams established in Dundee, East Ayrshire, Glasgow, Highlands, North Lanarkshire and West Dunbartonshire, to use their resources in innovative ways to address the specific local barriers to work for the long-term unemployed and inactive in disadvantaged areas, from April 2004;
- **giving extra support for sick and disabled people** by enabling Jobcentre Plus personal advisers to support Incapacity Benefit claimants who want to move into work. This will build on the help and support received by sick and disabled people in Scotland have already received through the New Deal for disabled people;
- **an extension of eligibility for the New Deal for partners** and enhancement of the help available through it; and

- **introducing further reforms to ensure that housing benefit** does not act as a barrier to work.

Further details on employment in Scotland can be found in the HM Treasury / Department for Work and Pensions paper Full Employment In Every Region published alongside the Pre-Budget Report.

## **Productivity and enterprise in a flexible Scotland economy**

The UK has high employment levels but the amount of output produced per worker – productivity – has historically been lower than in other major economies, such as US, France and Germany. Faster productivity growth, alongside higher levels of employment, will help to deliver greater economic prosperity and rising living standards in years to come.

## **Skills**

In Scotland, in 1999/2000, 10 per cent of young people were not in education or training at age 16 and, in 2002, 15.6 per cent of the working age population were without any qualifications compared to a UK average of 15.7 per cent. To raise Scotland's skills levels, which is crucial to productivity growth, the Government 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. The Government has published, alongside the Pre-Budget Report, **a discussion paper, Delivering an incentive for membership bodies to provide workforce development**, on the tax treatment of fees and subscriptions to professional other approved bodies, to establish whether the current system makes a sufficient contribution to the wider training and skills agenda.

The Scottish Executive is also introducing Educational Maintenance Allowances to provide support for young people from poorer families to pursue full time education beyond the age of 16.

## **Research & development**

In Scotland, business spending per head on R&D is £127, compared with an UK average of £221. To encourage an increase in R&D in Scotland, the Pre-Budget Report announces a newer, clearer and more accessible definition of R&D tax credits and a broadening of qualifying costs. This could potentially benefit over 900 businesses undertaking R&D in Scotland.

To help ensure that the UK can realize the commercial benefits of its excellent science base, the Government has asked Richard Lambert to undertake a review to examine whether the links between universities and businesses in the UK can be improved. The Government will make a full response to the Review's recommendations, published alongside the Pre-Budget Report, by summer 2004.

## Enterprise

The small business start-up rate is 28 per 10,000 population in Scotland, compared with a UK average of 37 per 10,000 population. To raise productivity through promoting an enterprising economy, the Pre-Budget Report announces:

- **reforms to reduce the regulatory burden**, including improvements to the VAT flat-rate scheme; 44,900 businesses in Scotland are currently eligible for the scheme;
- **a package of measures to overcome barriers to raising finance for small businesses**, including proposed enhancements to Venture Capital Trusts and Enterprise Investment Schemes;
- **an independent review of the effectiveness of the Small Firms Loan Guarantee** to ensure that it is having maximum benefit for small firms seeking debt finance, and that it builds on the 464 guarantees already issued this financial year in Scotland.

## Investment in infrastructure

Building on reforms of the planning system that are already underway, the Chancellor and Deputy Prime Minister jointly commissioned Kate Barker to lead a review of the factors affecting housing supply in the UK. The Government welcomes the **interim report by Kate Barker, *Securing our future housing needs***, published alongside the Pre-Budget Report, and looks forward to the final report in spring 2004.

The Government is committed to a comprehensive programme to improve the functioning of the UK housing market to ensure a better match between the supply and demand for housing, working alongside the Scottish Executive in devolved areas of policy.

The Government will introduce a new Exploration Expenditure Supplement to reduce barriers to entry for new entrant North Sea companies that do not

receive the full benefit of current 100 per cent exploration and appraisal capital allowances. Full details will be announced in Budget 2004.

## Building a fairer society in Scotland

The Government wants to build a fairer society in which everyone can contribute to and share in rising national prosperity. The Pre-Budget Report sets out the steps the Government is now taking to support families with children, to tackle pensioner poverty, and to build a modern tax system in which everyone pays their fair share.

The Child Tax Credits, introduced by the Government in April 2003, are supporting families with children and helping to tackle child poverty. By October 2003, 373,700 working families in Scotland were benefiting from the support it provides. The Pension Credit, introduced in October 2003, provides extra help for low and modest-income pensioners and rewards those who have saved modest amounts for retirement. Around half of all pensioner households may be entitled to the Pension Credit.

In the Pre-Budget Report, the Government takes further steps to promote a fairer society, including:

- **increasing support for families with children**, through an increase in the child element of the Child Tax Credit, by £180 to £1,625 a year from April 2004, equivalent to a weekly increase of £3.50;
- **providing extra help for employer supported childcare** in order to help people balance their work and family lives; and
- **reforms to promote fairness in the tax system** through measures designed to close tax loopholes and tackle fraud, including the introduction of measures to help reduce levels of alcohol fraud.

## Delivering high quality public services in Scotland

The Government is committed to providing new investment in Britain's public services. Spending on public services will be £59 billion a year higher by 2005-06 compared with 2002-03. The Scottish Executive's Departmental Expenditure Limit will be £4.1 billion higher over this period. The Government will set out spending plans for 2006-07 and 2007-08 in the 2004 Spending Review, which will conclude in summer 2004.

The Government is determined to secure value for money for the taxpayer. In each area of public service delivery, the Government is tying resources to reform and results. The Pre-Budget Report:

- describes the action the Government **is taking to drive efficiency and cut bureaucracy in the public sector**, releasing resources for front-line services; and
- confirms that to meet the UK's international commitments, including in Iraq, the Government will carry forward **the special contingency reserve, adding £0.5 billion this year and allocating £0.3 billion next year.**

In Scotland it is for the Scottish Executive to determine its own priorities in devolved areas of spending. An additional £47 million was announced for the Scottish Executive as a consequence of increases announced for England.

## Protecting the environment in Scotland

The Government believes that economic prosperity must be achieved while protecting the environment to ensure a better quality of life for everyone, today and for future generations. It is committed to tackling global problems, such as climate change, and to improving the local environment in Scotland's towns, cities and rural areas.

The Pre-Budget Report sets out the Government's plans for further action to improve the environment, including:

- **a new framework to ensure that duty levels for alternative fuels** reflect their environmental benefits and provide stability for producers;
- **consultation on reforms to climate change agreements** that will provide better incentives to encourage energy efficiency;
- **plans to recycle landfill taxes to businesses**; and
- **consultation on plans to tackling diffuse water pollution.**

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## What the Pre-Budget Report means for Scotland

December 2003



HM TREASURY

Scotland