

Pre-Budget Report 2004



Opportunity for all:

The strength to take the long-term decisions for Britain

The Government's 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 how the Government is working to achieve this goal, building on a platform of stability and sustained growth to ensure that Britain can continue to succeed in the rapidly changing and increasingly competitive global economy.

Maintaining a stable economy

The world economy has strengthened in 2004 following downturns in many major countries over the past four years, though a number of risks remain. The Government's economic reforms have helped the UK to maintain macroeconomic stability and continue to grow throughout this challenging period for the global economy. The Pre-Budget Report shows that:

- **the economy is expected to grow** by 3¼ per cent in 2004 and by 3 to 3½ per cent in 2005;
- **inflation is set to remain low and stable**; and
- **the public finances** remain sound and the Government is meeting its strict fiscal rules. Borrowing will be £34 billion this year and debt is lower than the US, Japan, Italy, France and Germany.

The global economy is experiencing a period of far-reaching and fundamental change, driven by advances in technology, greater international trade and investment, and rapid growth in many emerging markets, particularly China and India. These changes have the potential to bring great increases in global prosperity. The Government is committed to long-term reforms aimed at ensuring the UK is well-placed to prosper in the changing global economy, by promoting a stable economy which is flexible, enterprising and strong in innovation and skills.

Regional Policy

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 deliver strong public services that meet public needs from the centre using a one-size-fits-all solution. To enable each region to meet its objectives, the Government’s approach is to establish and develop efficient, innovative and accountable sub-national institutions. The Scottish Executive, established in 1999, is leading economic development in Scotland. Since its creation, the Scottish Executive has helped promote employment, entrepreneurship, innovation, skills and regeneration in Scotland. In September 2004 the Scottish Executive published an updated Framework for Economic Development in Scotland, focusing particularly on promoting basic education and skills, supporting R and D and innovation, fostering entrepreneurial dynamism, extending the electronic and physical infrastructure and managing public sector resources more effectively.

Pre-Budget Report 2004: promoting regional flexibility

The Government is committed to going further to promote the flexibility of regional and local institutions and to address the barriers they face to realising their objectives. **Devolving Decision Making: A Consultation on Regional Funding Allocations** published alongside the Pre-Budget Report sets out Government proposals to involve the English regions more in decision making on regional transport, economic development and housing. In Scotland the Scottish Executive already has devolved powers so it can ensure an integrated approach to medium and longer term planning in these areas.

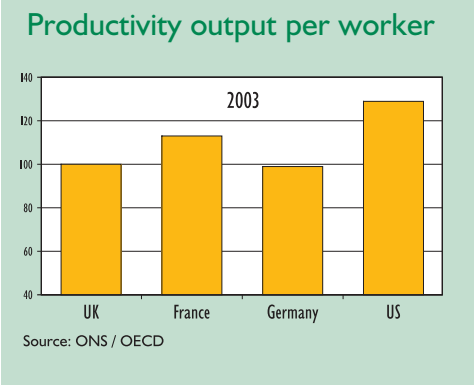
Promoting enterprise, innovation and skills in Scotland

Britain has high employment levels but the amount of output produced per worker - productivity - has historically been lower than in other major economies. Recent figures suggest the UK’s performance is improving, with productivity on an output per worker basis now higher than Germany and moving closer to France. An enterprising, innovative and high-skilled economy will help deliver faster productivity growth and ensure the UK is well placed to prosper in the global economy.

However, there are significant regional differences in productivity. In 2002, Gross Value Added (GVA) in Scotland was 5.4% below the UK average. The 2004 Pre-Budget Report announces new measures to help improve productivity in Scotland, by boosting skills, science and enterprise.

Skills

In Scotland 15 per cent of the working age population had no qualifications in



2003, compared to the UK average of 14 per cent. To raise Scotland's skills levels, which is crucial to productivity growth, measures include:

- **a new review to look in depth at the UK's future skills needs; and**
- in devolved areas it will be for the Scottish Executive to decide its own policies.

Science and innovation

Science and innovation are key drivers of productivity growth. Recent OECD research found that 1 per cent growth in public research and development leads to a 0.17 per cent increase in total factor productivity in the long run. In Scotland, business spending per head on research and development is £127, compared with a UK average of £221. The Pre-Budget Report announces a range of measures to further support the policy objectives set out in the Government's ten-year **Science and Innovation Investment Framework**, published in July. The key announcements are:

- developing the regional science and innovation agenda, highlighting the role of Development Agencies and the concept of **Science Cities**; and
- **removing uncertainty over the tax treatment of employee share remuneration for university spin-off companies** potentially benefiting 19 Higher Education and Research Institutions in Scotland.

Enterprise

In 2003 there were 29 VAT registrations per 10,000 head of population in Scotland, compared with an England average of 42 per 10,000 population. To raise productivity through promoting an enterprising economy, the Pre-Budget Report announces:

- implementation of the changes recommended by **the Graham Review on the Small Firms Loan Guarantee** by end-2005 - a major deregulation and simplification of the scheme, refocusing support on those businesses that need it most, typically benefiting 709 firms in Scotland each year;
- a **vision of how significant reductions in compliance burdens for small businesses will be delivered** through the integration of HM Customs and Excise and the Inland Revenue;
- reforms to reduce the regulatory burden on business; and
- the Government is committed to working with industry to maximize economic recovery of UK oil and gas reserves.

Increasing employment opportunity for all in Scotland

The Government's long-term goal is employment opportunity for all. It aims to promote a dynamic and flexible labour market which can react efficiently to changing economic circumstances and in which everyone has the opportunity to fulfil their potential.

Since 1997, the New Deal has helped nearly 201,310 people into jobs in Scotland. The number of people in work, in Scotland, has risen by 7.7 per cent in that time. Unemployment in the UK has fallen to 4.6 per cent, which is the lowest of the G7 economies. The New Deal has also helped to provide greater employment opportunity for people who find it harder to obtain jobs, such as lone parents and people with disabilities.

The Government has introduced reforms to improve work incentives and provide support for those on low incomes. Introduced in April 2003, the Working Tax Credit helps to make work pay for people on low incomes and has already helped 202,000 working families and 28,600 low-income working households without children in Scotland. The Government is now taking further steps to deliver higher employment across the country by:

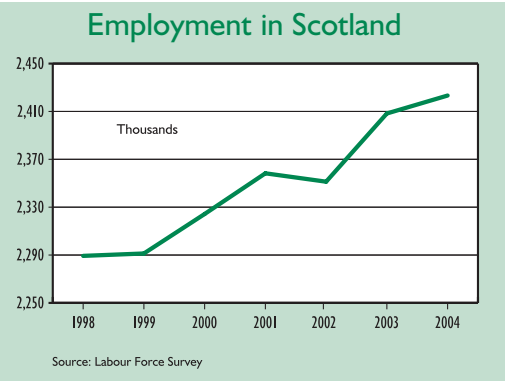
- **providing extra support for people on incapacity benefits who want to return to work**, through a major extension of the successful Pathways to Work pilots, and announcing wider benefits changes;
- **increasing the Working Tax Credit thresholds by £3 per week**, to ensure that families with rising incomes retain more of their tax credits in 2005-06; and
- **introducing a new Housing Benefit Reform Fund** to finance reform to ensure that Housing Benefit does not constrain the ability of the unemployed to find work.

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 help families with children, to promote savings and ensure security in old age, and to build a modern tax system in which everyone pays their fair share.

Introduced in April 2003, the Child Tax Credit provides a secure stream of income for families with children, helping to tackle child poverty. By April 2004 380,000 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 for retirement. Around 272,000 pensioner households are eligible in Scotland.

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



- **a ten-year strategy to promote childcare**, setting out how the Government will achieve its vision of affordable, high-quality childcare for all parents who need it, including from 2006-07, an increase in the maximum share of childcare costs met in the childcare element of Working Tax Credit from 70 to 80 per cent. 30,300 families in Scotland will benefit;
- **an extension of paid maternity leave to nine months** from April 2007, and improvements to the childcare element of the Working Tax Credit;
- a package of measures to ensure that everyone has **access to banking, affordable credit and free face-to-face money advice**;
- **a payment of £50 to households with someone aged over 70** to help with council tax and other living expenses, paid by the end of December 2005. 395,000 pensioners in Scotland will benefit;
- **promoting saving** through Individual Savings Accounts (ISAs), the Saving Gateway and the Child Trust Fund; and
- **measures to promote fairness in the tax system**, tackle tax fraud and avoidance, and protect revenues. Further details have been announced to ensure a proportionate spirit duty stamps scheme to be introduced in 2006.

Delivering high quality public services in Scotland

The Government is committed to providing new investment in Britain's public services. Plans for spending over the next three years were announced in the Spending Review in July 2004. Spending on public services by the Scottish Executive will be £4.2 billion higher by 2007-08 compared with 2004-05. The Scottish Executive has since then announced its own plans including more spending on its priorities including education, health, transport, housing, economic development and the fight against crime.

The Government is determined to secure value for money for the taxpayer, and has set out plans to achieve efficiency gains across the public sector of over £20 billion a year by 2007-08. This will release resources for front-line services. The Pre-Budget Report:

- describes progress on **departmental efficiency plans**, including a total of around 4,000 public sector posts moving out of London and the South East by the end of 2004-05. The Scottish Executive has also announced its own efficiency plans to release more resources for front line delivery in Scotland including £745 million cash savings and £300 million time releasing savings in 2007-08; subject to the outcome of further work, the Scottish Executive believes it can achieve up to £900 million a year in cash efficiencies by 2007-08 and up to £600 million in time releasing savings.
- **announces an additional £71 million for the Scottish Executive as a consequence of new spending measures in England**. It will be for the Scottish Executive to decide how to allocate this addition ; and

- **announces that to meet the UK's commitments in Iraq** and elsewhere in the fight against terrorism, an additional £520 million will be made available in 2004-05.

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 Britain's towns, cities and rural areas. The Government is also committed to promoting an efficient and environmentally sustainable transport system. The Pre-Budget Report sets out:

- that with climate change a key priority for the UK's G8 and EU Presidencies, **the Government announces the launch of an Energy Efficiency Innovation Review** and a new fund of £20 million to accelerate the uptake of energy efficiency technology;
- **the continuation of the freeze on main road fuel duties**, in response to the sustained volatility in the oil market; and
- measures to **promote the use of cleaner fuels and vehicles, including support for the development of biofuels.**

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What the Pre-Budget Report means for Scotland

December 2004



HM TREASURY

Scotland