

Pre-Budget Report

What the Pre-Budget Report means for London

December 2006



HM TREASURY

Pre-Budget Report



Investing in Britain's potential:

Building our long-term future

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 an increasingly competitive global economy. This leaflet outlines the Government's regional economic policy and sets out what the Pre-Budget Report means for London.

Maintaining a stable economy

The world economy is experiencing its strongest period of growth for more than 30 years. Growth of the UK economy since Budget 2006 has surpassed expectations. This has been driven by further growth in UK business investment, as well as a recovery in the growth of the major European and Asian economies to which the UK exports. The Government's economic reforms have continued to help the UK to maintain macroeconomic stability throughout this period. The Pre-Budget Report shows that:

- **the economy is expected to grow** by 2¾ per cent in 2006, and 2¾ to 3¼ per cent in 2007;
- **inflation is set to remain low and stable**; and
- **the public finances remain sound** and the Government is meeting its fiscal rules. Borrowing is forecast to be £37 billion in 2006-07 and is set to fall further, and debt is lower than in the US, Japan, Italy, France and Germany.

Regional Policy

The Government's regional policy aims to improve the economic performance of all English regions and reduce the persistent gap in growth rates between them. The Government believes that the best way to improve the productivity of the regions is to allow each region and locality the freedom and flexibility

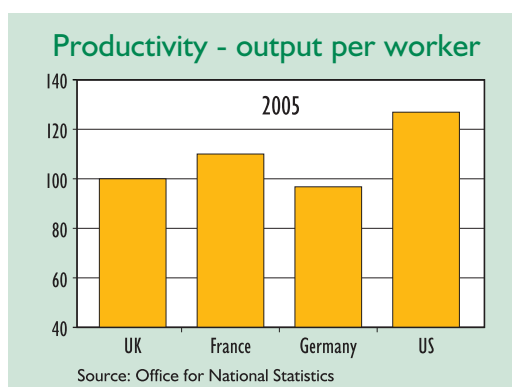
to exploit local sources of growth. The Pre-Budget Report sets out the Government's progress on its regional economic performance agenda. This is available in *Regional Economic Performance: progress to date*, published on HM Treasury's website.

The Government is conducting a Review of Sub-National Economic Development and Regeneration to consider the efficiency and effectiveness of regional and local interventions. The review is considering how to: devolve further to the regions and localities; increase cooperation between regions, sub-regions and localities; improve sub-national governance and accountability; and increase the role of the private sector in regional economic development.

Regional Development Agencies (RDAs) are the strategic leaders of economic growth in each region. In recognition of this and to inform the Sub-National Review, London Development Agency, along with the other RDAs, has been asked to contribute to Budget 2007 in three areas: the role of the private sector in regional economic development; regional economic strategies and their impact on competitiveness in a global context; and improving RDA evaluation.

Promoting enterprise, innovation and skills

Britain has high employment levels but the amount of output produced per worker – productivity – has historically been lower than in other major economies. Britain's relative performance has improved in recent years, with productivity now higher than Germany and moving close to France. A flexible, enterprising, and high-skilled economy will help deliver faster productivity growth and ensure the UK is well-placed to prosper in the global economy. The Government recognises there are significant regional differences in productivity. In 2005, Gross Value Added (GVA) per head in London was 36 per cent above



the UK average. The Pre-Budget Report announces new measures to improve productivity in London, including

- **measures to support innovation and health research**, taking forward recommendations for an improved intellectual property framework and new arrangements for health research funding;
- **taking forward reforms to ensure greater flexibility in the planning system**, following publication of Kate Barker's Review of Land Use Planning;
- **greater ambitions for assisted home ownership** through shared equity schemes;
- **reform of the planning, funding and delivery of transport infrastructure**, to maximise the return on investment in transport, following the recommendations of the Eddington Transport Study; and
- **a new ambition of world-class skills**, following the publication of the Leitch Review of Skills.

Delivering high employment

The Government's long-term goal is employment opportunity for all. It aims to promote a dynamic and flexible labour market in which everyone has the opportunity to fulfil their potential. Since 1997, the New Deal has helped over 233,000 people into jobs in London, and helped to provide greater employment opportunity for people who find it harder to obtain jobs, such as lone parents and people with a health condition or disability. In London, employment has risen by 14.2 per cent in that time and unemployment has fallen by 4.2 per cent.



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 by April 2006, tax credits were helping around 700,000 families in London. The adult rate of the National Minimum Wage is now £5.35. The Government is taking further steps to deliver higher employment in London by:

- **raising the earnings disregard to Housing Benefit and Council Tax Benefit in line with indexation to £15.45 in April 2007**, ensuring that claimants gain from increases in the rate of Working Tax Credits;
- **improving the Jobseeker's Allowance regime** by offering expert worksearch support at the new claim stage, and extending the Job Grant to 18-24 year old jobseekers, potentially benefiting around 6,000 people in London; and
- **improving enforcement of the National Minimum Wage** by increasing by 50 per cent the resources allocated to tackle non-compliance.

Building a fairer society

The Government's aim is 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 taking to tackle child and pensioner poverty, to support families and children, and to promote savings. The Government is also continuing to build a modern tax system in which everyone pays their fair share. The Child Tax Credit was introduced in April 2003, to support families with children, help to tackle child poverty, and ensure continuity of income for people moving into work. By April 2006, around 700,000 families in London were benefiting from tax credits. The Pension Credit, introduced in October 2003, provides extra help for low and modest income pensioners and rewards those who have saved for retirement; by May 2006 this was benefiting around 248,000 households in London. In the Pre-Budget Report, the Government takes further steps to promote a fairer society, including:

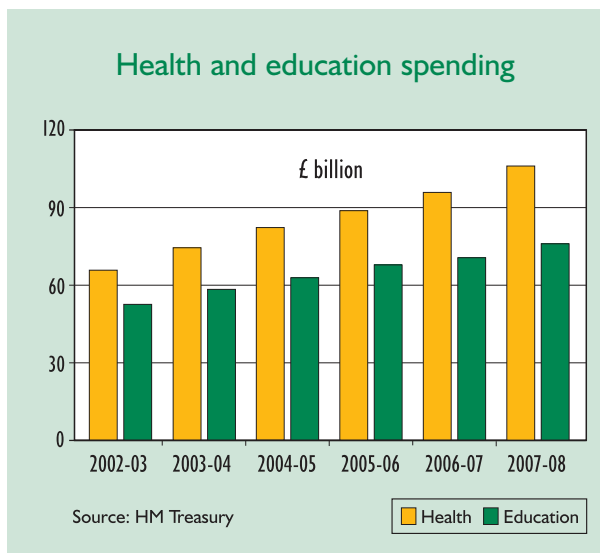
- **a rise of £80 in the child element of the Child Tax Credit from April 2007**, in line with the commitment to increase it at least in line with average earnings to the end of the Parliament. In London around 700,000 families are benefiting from tax credits;

- **from April 2009 every mother-to-be will be eligible for Child Benefit from week 29 of their pregnancy;**
- **making Individual Savings Accounts permanent** to provide greater certainty for providers and savers;
- **an extension of the Warm Front programme,** providing insulation and heating at the lowest possible cost to vulnerable households and pensioners; and
- **measures to promote fairness in the tax system,** including action to tackle tax avoidance.

Delivering high quality public services

The Government is committed to providing new investment in Britain's public services. Spending on public services will be £62 billion a year higher by 2007-08 compared with 2004-05. Around 75 per cent of this increase will be spent on the Government's priorities of education, health, social services, transport, housing and the fight against crime. The Government is determined to secure value for money for the taxpayer and is on track to achieve efficiency savings of over £21 billion by 2007-08, including through a reduction of more than 80,000 civil service administrative posts. This will release resources for front-line services.

The 2007 Comprehensive Spending Review will set out the Government's spending plans and priorities from 2008-09 to 2010-11 and will identify what investments and reforms are needed to equip the UK for the future. In preparation for this, the Pre-Budget Report announces:



- **a new ambition of at least 3 per cent savings per year across central and local government** for the 2007 Comprehensive Spending Review period, and a reduction of at least 5 per cent per year in departments' administration budgets, releasing resources to meet the challenges ahead;
- **publication of Sir David Varney's review of public service transformation**, making recommendations to join up public services and make them more efficient and responsive to the needs of users;
- **a commitment for capital investment in education to rise** from £8.3 billion in 2007-08 to £10.2 billion in 2010-11; and
- **funding of £84 million for counter-terrorism and intelligence.**

Protecting the environment

The Government believes that economic prosperity must be achieved while protecting the environment to ensure a better quality of life for current and future generations. In particular, the Government is committed to playing a leading role in tackling the global challenges of climate change. It is also committed to improving the local environment in the UK's towns, cities and rural areas and to promoting an efficient and environmentally sustainable transport system. The Pre-Budget Report announces:

- **an increase in all rates of air passenger duty with effect from 1 February 2007**, in recognition of the environmental costs of flying;
- **an ambition for all new homes to be zero carbon by 2016**, with a time-limited stamp duty exemption for the vast majority of new zero-carbon homes;
- **an increase in the main road fuel duties in line with inflation;** and
- **measures to promote the use of cleaner fuels**, including support for the development of biofuels.

Where taxpayers' money is spent

Total public spending is expected to be around £555 billion this year, around £9,200 for every man, woman and child in the UK. It is set to rise to £585 billion in 2007-08.

