Budget 2004

What the Budget means for Scotland

March 2004

HM TREASURY

Scotland

Budget 2004

Prudence for a purpose:

A Britain of stability and strength

The Government's economic objective is to build a strong economy and a fair society, with opportunity and security for all. Budget 2004 sets out how the Government is working to achieve this goal, building on a platform of economic stability and sustained growth to ensure that Britain can continue to succeed in a competitive global economy.

This leaflet sets out what the impact of the Budget is on Scotland.

Maintaining a stable economy

Prospects for the world economy continue to improve following a period of global uncertainty. The Government's reforms have helped to ensure that the UK economy has sustained steady and stable growth, and is well placed to benefit from the strengthening world economy. The Budget projections show that:

- **the economy** is expected to grow by 3 to 3½ per cent in both 2004 and 2005, as forecast in last year's Budget and Pre-Budget Report;
- **inflation** is set to remain low and close to the Government's target; and
- t**he public finances** remain sound and the Government is on track to meet its fiscal rules, borrowing is £37.5 billion in 2003-04 and is set to fall, and in 2003 debt was the lowest of any of the G7 major industrialised economies.
- Budget 2004 reports on progress on the policy requirements set out in the Government's June 2003 assessment of the five economic tests for membership of EMU. The Government does not propose that there should be another assessment at this time. Progress will be reviewed again at the time of next year's Budget.

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. The Government is working in partnership with the Scottish Executive to strengthen Scotland's economic performance.

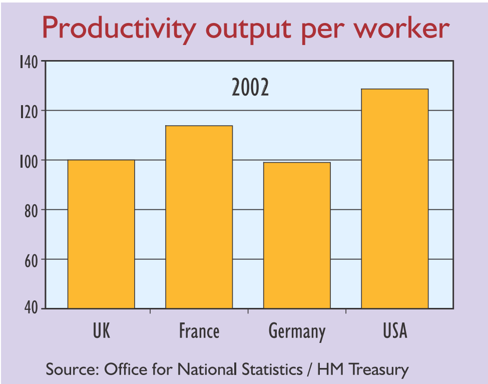
The Government believes that it is not possible to run economic policy or deliver strong public services that meet public needs from the centre using a one-size-fits-all solution.

To enable each region and country to meet its objectives, the Government's approach is to establish and develop efficient, innovative and accountable devolved institutions.

In Scotland, the establishment in 1999 of the Scottish Parliament and Scottish Executive was the foundation stone of this approach. The Scottish Executive aims to help promote employment, entrepreneurship, skills and regeneration. It is promoting devolved Scottish economic policies through its Smart, Successful Scotland strategy.

The Government is committed to going further to promote flexibility of national, regional and local institutions and to address the barriers they face to realising their objectives. Published alongside the Budget, ***Devolving Decision Making: 2 - Meeting the Regional Economic Challenge: Increasing Regional and Local Flexibility***, analyses historic and recent trends in regional economic performance and assesses progress in addressing regional disparities in employment and productivity. Against this background, the paper takes stock of progress in building effective regional and local institutions and describes how the Government proposes to develop further the framework to ensure that regional and local institutions have the flexibility they need to achieve their ambitions.

Meeting the productivity challenge in Scotland



Britain has high employment levels but the amount of output produced per worker - productivity - has historically been lower in the UK than in other major economies. Faster productivity growth, alongside higher levels of employment, will help to deliver greater economic prosperity and rising living standards. Recent figures suggest the UK's performance is improving, with UK productivity now higher than Germany and moving closer to France. However, there are significant differences in productivity between the nations and regions of the UK. In 2001, productivity in Scotland was 5.3 per cent below the UK average. Budget 2004 announces new measures to improve productivity in Scotland by boosting skills, science and enterprise.

Skills

In Scotland, 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 the country's skills levels, which is crucial to productivity growth, Budget 2004 announces a **New Deal for skills** to ensure individuals are helped to develop the skills they need for employment and employers can develop the skilled workforce needed for the success of their business. In Scotland, the Scottish Executive is building on the pilot measures, announced last month, to establish a new Relocation Advisory Service to attract talent to Scotland, as part of plans to help raise skills level.

Science and innovation

In Scotland, business spending per head on research and development is £127, compared with a UK average of £221. To encourage further an increase in R&D investment in Scotland, the Government is **introducing a new definition of R&D from 1 April 2004**, making it easier for the 916 businesses undertaking R&D to claim the credit. The Government is also extending the range of costs that qualify for the credit to include power, water, fuel and software costs.

To help ensure that the UK can realise the commercial benefits of its excellent science base, the Government has published a consultation document to inform the preparation of a ten-year investment framework for science and innovation as part of the 2004 Spending Review. **The Government will ensure that the level of public investment in the science base will grow faster than the trend rate of GDP growth over the Spending Review period 2005-06 through to 2007-08**.

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 Budget:

- confirms details of a **Business Premises Renovation Allowance** scheme, providing 100 per cent capital allowances in Enterprise Areas in Scotland for the costs of renovating business properties that have been vacant for at least a year. Subject to state aid approval, the scheme will be introduced in 2005; and
- an increase in the turnover ceiling for businesses wishing to use the VAT annual accounting and cash accounting schemes from £600,000 to £660,000, benefiting up to 900 businesses in Scotland.

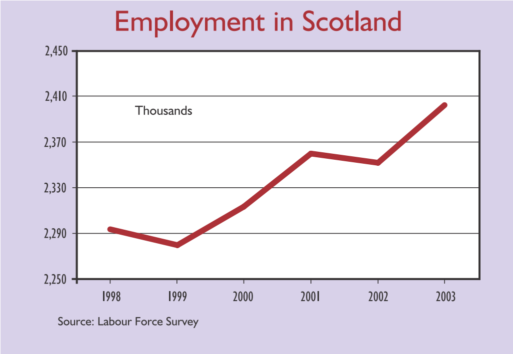
Investment

The Government is taking steps to improve the environment for private investment and investment decision-making by providing a platform for macroeconomic stability, promoting flexibility in capital markets, and addressing specific market failures in planning and the housing market.

The Government welcomes Kate Barker's review of housing supply, ***Delivering stability: securing our future housing needs***, published alongside the Budget, and agrees that to deliver its commitment to stability and affordability a significant increase in development over time is needed. In response to the Review, **the Government will establish a long-term goal for affordability in the housing market**. The Government will also consult with stakeholders on implementing a programme of change as recommended by the Review. In devolved areas this will be a matter for the Scottish Executive to decide.

As announced in the Pre Budget Report, a new Exploration Expenditure Supplement to help new entrant North Sea companies that do not receive the full benefit of current 100 per cent exploration and appraisal capital allowances is being introduced.

Increasing employment opportunity for all in Scotland



The Government's long-term goal is employment opportunity for all. The Government is committed to promoting a dynamic and flexible labour market, where everyone has the opportunity to fulfil their potential. Since 1997, the New Deal has helped more than 115,000 people in Scotland into jobs. This has contributed to a 119,000 rise in employment and a 65,000 fall in unemployment in Scotland in this period.

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 and is benefiting 168,300 working families on low and moderate incomes in Scotland. Together with the National Minimum Wage, the Working Tax Credit helps to deliver a more flexible labour market, while ensuring that workers are protected against falls in income.

Budget 2004 sets out the steps the Government is taking to build on the progress made and extend employment opportunity to all, including:

- **the piloting of mandatory work-focused interviews for some existing claimants of incapacity benefits** in the Pathways to Work areas, alongside **the piloting of a job preparation premium of £20 per week** to reward relevant activity that supports a return to work. The provisions will start from January 2005 in the first wave of Pathway areas, including Renfrewshire, Inverclyde, Argyll and Bute;
- from October 2004, **a further increase in the National Minimum Wage rate to £4.85 for adults and £4.10 for young people**, benefiting at least 160,000 people in Scotland;
- the introduction of **new National Minimum Wage for 16 and 17 year olds** of £3.00 per hour from October 2004; and
- **significant reform of housing benefit from April 2004**, including a £12.32 earnings disregard to strengthen incentives for work.

Building a fairer society in Scotland

The Government's aim is to build a fairer society in which everyone can contribute to and share in rising national prosperity. A flexible and dynamic economy must go hand in hand with a fairer society so that everyone has the chance to fulfil 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. It is also creating a modern and fair tax system which raises sufficient revenue for public services and ensures that everyone pays their fair share of tax.

The Child Tax Credit was introduced in April 2003, supporting families with children and helping to tackle child poverty. The child element of the Child Tax Credit will increase by £3.50 a week from April 2004, with 203,400 working families in Scotland eligible to benefit. The Pension Credit, introduced in October 2003, provides extra help for low and modest income pensioners and rewards those who have saved for retirement. Budget 2004:

- announces reforms of **financial support for 16-19 year olds** to increase the proportion of people reaching the age of 19 with the skills necessary to fulfil their potential in the economy. Where these relate to devolved policy matters, this will be for the Scottish Executive to determine;
- introduces an **extra £100 pension payment to households with someone aged over 70, to help with council tax bills**. This will benefit 394,820 pensioner households in Scotland;
- confirms a r**adical simplification of the taxation of pensions**;
- introduces a **19 per cent minimum rate of corporation tax on distributed profits of small companies**;
- **promotes fairness in the tax system**, by introducing a package of measures to clamp down on tax fraud and avoidance. The Finance Bill will legislate to enable the introduction of tax stamps for spirits from 2006-07 to tackle alcohol fraud. The Government will **establish a £3 million fund to provide targeted grants to UK based alcohol traders making capital investment in approved tax stamping equipment**, subject to further detailed consideration and discussion with the trade; and
- **raises the duties on tobacco, beer and wine in line with inflation, and freezes the duty on spirits and cider**.

Delivering high quality public services in Scotland

The Government is committed to providing new investment in Britain's public services. Spending on public services in the UK will be £61 billion higher by 2005-06 compared with 2002-03.

As a consequence of the increased spending announced for the Department for

Education and Skills, an additional £183 million in 2006-07 and £407 million in 2007-08 has been announced for the Scottish Executive. It will be for the Scottish Executive to decide how to allocate these additional resources.

The Government will set out spending plans for other public services up to 2007-08 in the 2004 Spending Review this summer. The growth rate of spending will be lower in the 2004 Spending Review than in the previous Spending Review. The Government is determined to secure value for money for the taxpayer and to match extra resources with reform across the public services to deliver better results. The Budget sets out plans to achieve efficiency gains across the public sector of 2.5 per cent a year, including through a freeze in administration costs, and reductions in staff levels in several major departments. This will release resources for front line services. It will be for the Scottish Executive to decide how to secure value for money in devolved areas of spending.

The Budget announced that a number of departments are demonstrating their commitment to releasing resources for the front line and improving public service delivery by bringing forward proposals for savings in their headquarters and wider administration costs. The Department of Work and Pensions plans to make gross efficiency gains equivalent to 40,000 posts between now and 2008, and reinvest some of the savings in meeting significant increases in its own front line work load, such as additional work-focused interviews. Following the Government's announcement that it accepts the recommendations of the review of the revenue departments, led by Gus O'Donnell, a single tax department will be created by integrating HM Customs and Excise and the Inland Revenue. Along with existing plans and proposed efficiency reforms, this could create scope for overall savings equivalent to up to 14,000 jobs by the end of 2007-08.

Sir Michael Lyons has published alongside the Budget his final report, ***Well Placed to Deliver? – Shaping the Pattern of Government Service***, which sets out a series of recommendations for relocating civil servants and other public sector workers from London and the South East. The Government is committed to taking forward relocation as a key strand of the public service reform agenda.

Protecting the environment in Scotland

The Government believes that economic growth and social progress must be achieved while protecting the environment to ensure a better quality of life for current and future generations. To protect and improve the environment, Budget 2004 announces:

- from 1 September 2004, **duty rates on sulphur-free fuels will rise in line with inflation**. The duty rate for ultra-low sulphur fuels will be set at 0.5 pence per litre above this level from the same date, to promote the use of the cleaner sulphur-free fuel. Vehicle excise duty rates are frozen;
- measures to promote **household energy efficiency**, including reduced rates of VAT for energy-efficient products and incentives for landlords to invest in the energy efficiency of rented housing; and
- reforms to **climate change agreements** which will increase the number of business which take part, and **a freeze in the rate of climate change levy**.

Household income

- Compared with last year, a single earner family with two children with earnings up to median for full-time workers - £22,000 per year – will be at least £220 a year better off in real terms.
- As a result of all tax and benefit reforms since 1997, from October 2004, families with children are, on average, £1,350 a year better off in real terms, while those in the poorest fifth of the population are, on average, £3,000 a year better off in real terms. A single earner family with two children, on average male earnings of £29,300, is £285 a year better off in real terms.