

Budget 2005



Investing for our future:

Fairness and opportunity for Britain's hard-working families

The Government's economic objective is to build a strong economy and a fair society, with opportunity and security for all. The Budget sets out how the Government is working to achieve this goal, building on a platform of stability and growth to ensure that Scotland can meet the challenges and rise to the opportunities of the rapidly evolving global economy.

Maintaining a stable economy

Following downturns in many major economies, the world economy strengthened in 2004 and in the early part of this year, though a number of global economic 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 Budget projections show that:

- **the economy** is expected to grow by 3 to 3½ per cent in 2005, as forecast in Budget 2003 and Budget 2004;
- **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 fiscal rules, borrowing is forecast to be £34 billion in 2004-05 and debt lower than the US, Japan, Italy, France and Germany.

High quality public services

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 growing the economy, delivering excellent public services, supporting stronger safer communities and developing a confident, democratic Scotland.

An additional £293 million over the next five years is announced in the Budget for the Scottish Executive. It will be for the Scottish Executive to decide how to allocate this additional spending.

The UK Government is determined to secure value of money for the taxpayer and has sets out plans for public service efficiency savings of over £20 billion by 2007-08. This will release resources for front line services. The Scottish Executive has also announced its own efficiency plans. The Budget:

- describes progress on UK Government departmental efficiency plans, including £2 billion of savings announced since the 2004 Pre-Budget Report and a total of over 4,300 jobs moving out of London and the South East by the end of 2004-05; and
- announces that to meet the costs of the military operations in Iraq and the UK's other international obligations, an additional £340 million will be made available in 2004-05 and £400 million will be made available in 2005-06.

Devolving decision making

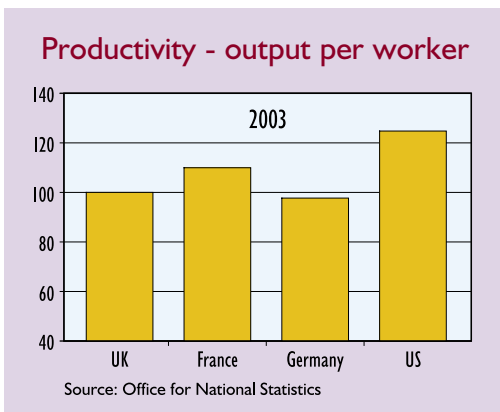
In Scotland, the Government is working with the Scottish Executive to promote economic growth, full employment and prosperity for all the people of Scotland.

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. Instead the Government has devolved a wide range of functions to devolved administrations in each country with the freedom and flexibility to respond to their particular challenges and opportunities. The Scottish Executive, is leading devolved economic development policies in Scotland. Since its creation, the Scottish Executive has helped to promote employment, entrepreneurship, innovation, skills, and regeneration in Scotland.

Productivity and enterprise in a flexible economy

Britain has high employment levels but the amount of output produced per worker – productivity – has historically been lower than in other major economies, though Britain’s relative performance has been improving in recent years. 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 2003, Gross Value Added (GVA) per capita in Scotland was 4% below the UK average. The 2005 Budget Report announces new measures to help improve productivity in Scotland, by boosting skills, science and enterprise. Budget announcements include:

- **reforms to reduce the regulatory burden on enterprise**, including implementing the recommendations of the Hampton Review for a new risk-based approach to inspection and enforcement, streamlining regulatory structures and increasing accountability; and new targets for reducing the administrative burden of Government regulation;
- **improved support for enterprise in deprived areas**, by replacing relief on commercial property purchases in disadvantaged areas with a new, better targeted Local Enterprise Growth Initiative; in Scotland it will be the Scottish Executive to make decisions in devolved policy areas;
- steps to implement the **ten-year Science and Innovation Investment Framework**, including new partnerships to boost stem cell and energy research; and
- new guidance for small companies claiming the R and D Tax Credit.



Employment opportunity for all

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 fulfill their potential.

Since 1997, the New Deal has helped over 120,000 people into jobs in Scotland, 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. The number of people in work in Scotland has risen by 7.9 per cent in that time, and unemployment has fallen by 30.7 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. By December 2004, it was benefiting over 224,000 working households in Scotland. Together with the National Minimum Wage, which from October 2005 will cover 140,000 jobs in Scotland, the Working Tax Credit helps to deliver a more flexible labour market, while ensuring that workers are protected against falls in income. The Government is now taking further steps to deliver higher employment across Scotland, by:

- providing extra support for people on **incapacity benefits who want to return to work**, by improving the operation of linking rules;
- introducing a package of measures to simplify and improve **Housing and Council Tax Benefit administration** including improved IT links for faster and more accurate benefit processing;
- accepting the recommendations set out by the National Employment Panel in its report **on raising ethnic minority employment**; and
- exploring **more efficient and effective sanctions** to ensure that jobseekers meet their responsibility to look for work.

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. 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. Budget 2005 announces:

- a commitment to **increase the child element of the Child Tax Credit** at least in line with average earnings up to and including 2007-8, benefiting over 190,000 working families in Scotland;
- improves **financial support for 16 to 19 year olds** in learning, through extending Child Benefit and the Child Tax Credit from April 2006; and pilots a new Activity Agreement and Allowance for 16 to 17 year olds not in education, employment or training;
- an additional payment guaranteeing council tax paying households with someone over 65 will receive £200 towards the cost of council tax alongside the 2005 Winter Fuel Payment;
- a doubling of the **starting threshold of stamp duty** on all residential property transactions to £120,000;
- extends the existing higher **Individual Savings Accounts** annual investment limits to April 2010;
- introduces further reforms to **modernise the tax system**, including changes to the way oil companies pay tax; and a number of measures to clamp down on **tax fraud and avoidance**; and
- **an increase in the duties on tobacco, beer and wine in line with inflation, and freezes the duty on spirits and cider.**

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. It is committed to tackling global problems, such as climate change, and to improving the local environment in the UK's towns, cities and rural areas. The Government is also committed to promoting an efficient and environmentally sustainable transport system. Budget 2005 announces:

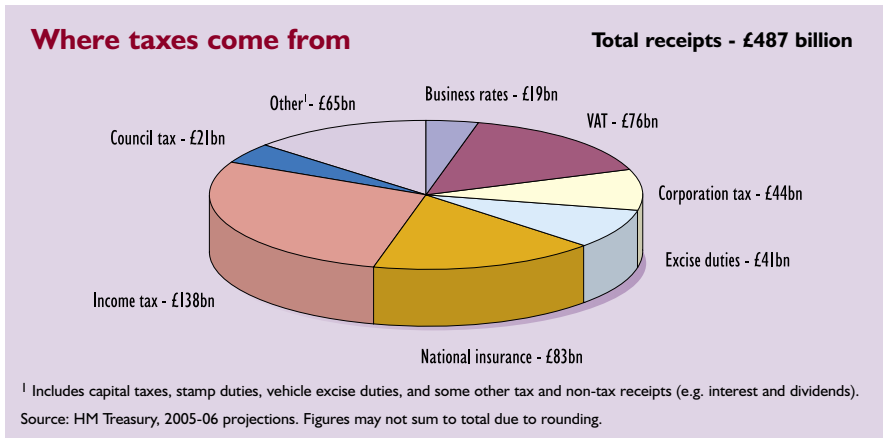
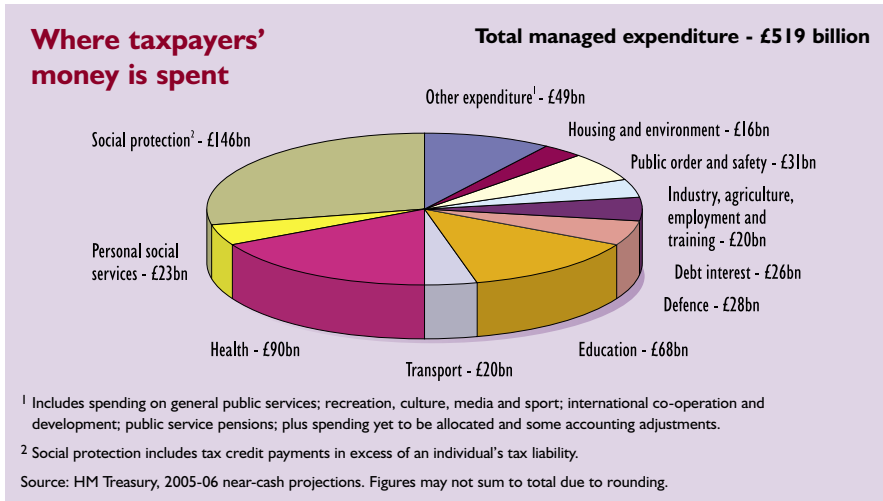
- **further action on climate change**, including new fiscal incentives and an energy services summit;
- an increase, in line with inflation, of **fuel duty rates**, from 1 September 2005, alongside an increase in duty on rebated oils to reduce fraud; and the standard £5 increase in Vehicle Excise Duty for larger and more polluting cars, with the rate for smaller cars frozen;
- a freeze in the threshold for the minimum percentage charge rate of **company car tax**, and simplifications to the company car tax system; and
- a freeze in the **climate change levy, the aggregates levy and air passenger duty**.

Household income

- Compared with last year, a single earner couple with two children, with earnings up to the median for full time workers - £23,400 per year - will be at least £150 a year better off in real terms.
- As a result of personal tax and benefit measures introduced since 1997, by October 2005, households in Scotland will be, on average, £950 a year better off in real terms.

Where taxpayers' money is spent

Total public spending is expected to be around £519 billion in 2005-06, around £8700 for every man, woman and child in the UK. It is set to rise to £549 billion in 2006-07 and to £580 billion in 2007-08.



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