



Budget 2007

**What the Budget
means for London**



March 2007



HM TREASURY





Budget 2007

Building Britain's long-term future: Prosperity and fairness for families



The Government's economic objective is to build a strong economy and a fair society, where there is opportunity and security for all. Budget 2007 sets out how the Government is working to achieve this goal, building on a platform of stability and sustained growth to ensure the UK can continue to succeed in the increasingly competitive global economy. This leaflet outlines the Government's regional economic policy and sets out what the Budget means for London.

Maintaining a stable economy

The world economy is expected to remain strong in 2007. Economic growth in the UK has been driven by further increases 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 maintain macroeconomic stability throughout this period. The Budget shows that:

- **the economy is expected to grow by 2¾ to 3¼ per cent in 2007**, and by 2½ to 3 percent in 2008 and 2009, as forecast in the Pre-Budget Report;
- **inflation is set to remain low and stable**; and
- **the public finances remain sound** and the Government is on track to meet its fiscal rules, with borrowing forecast to be £35 billion in 2006-07 and debt 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 Budget takes new steps to stimulate economic growth in London, strengthen regional institutions and increase regional input into national policy.

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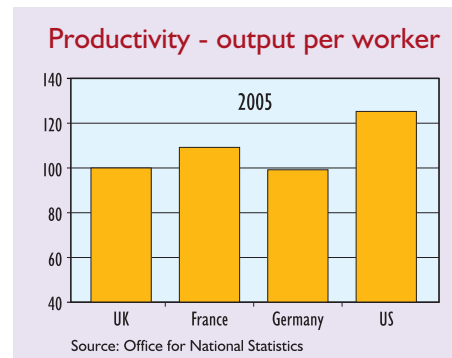
Budget 2007 sets out progress on the Government's review of sub-national economic development and regeneration, which will inform the 2007 Comprehensive Spending Review. The review is considering how to deliver further devolution to regions and localities and to achieve greater cooperation between region, sub-regions, local authorities and neighbourhoods. Budget 2007 details the particular areas for potential reform the Government is focusing on.

London Development Agency, along with the other Regional Development Agencies (RDAs), was asked to provide advice to contribute to the development of Budget 2007. In addition, London, along with other regions, has provided advice for the development of the 2007 Comprehensive Spending Review.

Budget 2007 also sets out the support that the London Development Agency, along with the other RDAs, provides for businesses on energy efficiency. In total, the advice, support and incentives available from the RDAs for environmental improvement and innovation, including for small businesses, will rise from £140 million this year to £240 million next year. The London Development Agency will pilot in 2007-08 a simplified business resource efficiency advice service, through the Business Link.

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 been improving 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 33 per cent above the UK average. The Budget announces new measures to improve productivity in London, including:



- **major reforms to the corporate tax system**, including a reduction in the headline corporation tax rate from 30 per cent to 28 per cent from April 2008 and a series of reforms to simplify the capital allowance system;





- **further enhancements to research and development tax credits**, to encourage innovation, extending support to firms and building on the 965 R&D tax credit claims already made in London;
- **an increase in the tax rate for small companies to tackle individuals artificially incorporating to minimise tax**;
- **reforms to reduce the regulatory burden on business**, including tackling business' concerns about the burden of workplace dispute resolution;
- **the restriction of tax relief available on empty commercial properties**, to encourage the supply of office, retail and industrial premises; and
- **an increase in investment in public science** of 2.5 per cent from 2008-09 to 2010-11.

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 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 2007 announces the next stage in the Government's reforms to simplify the tax system, to support pensioners, support families and make work pay. The Government will:

- **remove the 10 pence starting rate of income tax and cut the basic rate of income tax from 22 pence to 20 pence from April 2008**. This will benefit around 2.1 million households in London;
- **align the tax and national insurance systems**, raising both the point up to which people pay a higher rate of national insurance and the point at which people start paying higher rate tax, aligning them together in April 2009;
- further **increase the child element of the Child Tax Credit by £150 a year** to help families with children, potentially benefiting the 215,000 families in London who receive this, and **raise the point below which people receive Working Tax Credits by £1,200** to help make work pay;
- **increase the annual Individual Savings Account investment limit from April 2008 to £7,200**, of which £3,600 can be held in cash;





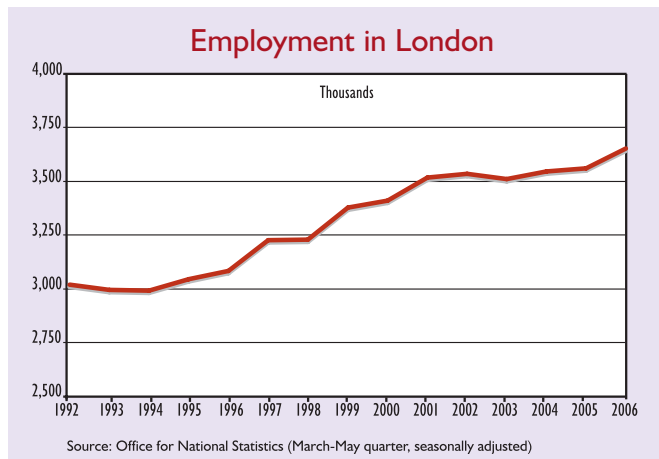
- **modernise the tax system through further reforms;** and introduce a number of measures to tackle tax fraud and avoidance;
- **raise the point at which people aged 65 and over start to pay income tax by £1,180 in April 2008,** thereby taking 50,000 over-65s out of tax in London. By April 2011 no pensioner aged 75 or over will pay any tax on income under £10,000;
- **introduce measures to support the third sector** including £80 million in grants for community organisations; and
- **freeze spirit duties and increase all other alcohol and tobacco duties, in line with inflation.**

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 in which everyone has the opportunity to fulfil their potential. Since 1997, the New Deal has helped 240,000 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 14.8 per cent in that time and unemployment has fallen by 6 per cent.

Introduced in April 2003, the Working Tax Credit helps to make work pay for people on low incomes. By December 2006 tax credits were helping around 700,000 families in London. The adult rate of the National Minimum Wage will rise to £5.52 per hour from October 2007, benefiting around 70,000 people on the minimum wage in London. The Government is now taking further steps to deliver higher employment across the country, by:



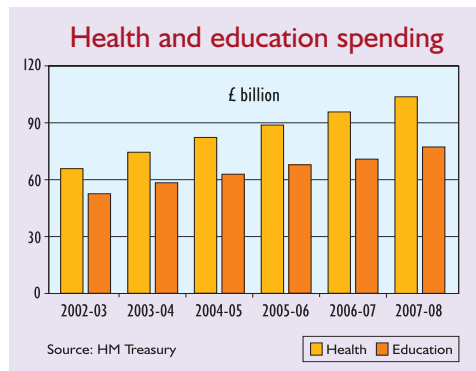


- continuing to provide support for lone parents who find work by **extending the £40 per week In-Work Credit in the existing pilot areas until June 2008; benefiting around 91,000 lone parents in London, and offering the credit at a higher rate of £60 across the whole of London;**
- **introducing local employment partnerships with large retail employers working with Jobcentre Plus** at a local level to help the long-term unemployed and economically inactive back to work; and
- **introducing a four-week run-on in entitlement to Working Tax Credits,** reducing overpayments and easing the transition from tax credits to benefits.

High quality public services

The Government is committed to providing new investment in Britain's public services. Spending on public services will be £61 billion 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 a reduction of more than 80,000 civil service administrative posts.

The 2007 Comprehensive Spending Review (CSR) will set out the Government's spending plans and priorities from 2008-09 to 2010-11 and will identify what investment and reforms are needed to equip the UK for the future. Over the CSR period, the new ambition of 3 per cent value for money savings per year across central and local government, together with 2 per cent growth in public spending, will enable the Government to improve further front-line services. This Budget announces:



- **education spending in the UK will rise to £90 billion by 2010-11.** This means that education spending will rise to 5.6 per cent of GDP by 2010-11, reflecting the high priority this Government attaches to education; and
- **a further £86 million to strengthen the fight against terrorism.**





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. Budget 2007 announces:

- **an increase in fuel duty rates of 2 pence per litre from 1 October 2007** and a pre-announcement of rates for the following 2 years;
- **increases in car Vehicle Excise Duty rates** including raising rates for the most polluting cars and reducing rates for the cleanest cars;
- from 1 October 2007 purchasers of **new zero-carbon homes costing up to £500,000 will pay no stamp duty**;
- measures to help **householders take cost effective action to improve the energy efficiency performance of their homes**;
- **an increase in the standard rate of landfill tax by £8 per tonne per year** from 1 April 2008;
- **an inflation only increase in the Climate Change Levy from April 2008**, to encourage energy efficiency in the business sector; and
- **£800 million allocated to the environmental transformation fund** to finance overseas development projects.

Household income

- In the UK a single earner couple with two children earning £27,000 a year – the median for full time workers – will be, as a result of this Budget's personal tax and benefit measures, around £500 a year better off in real terms by April 2009.
- As a result of personal tax and benefit measures introduced since 1997, by April 2009, families in London will be, on average, £1,050 better off. Moreover, in London families with children will be, on average, £1,700 a year better off in real terms, while those in the poorest fifth of the population are, on average, £3,900 a year better off.

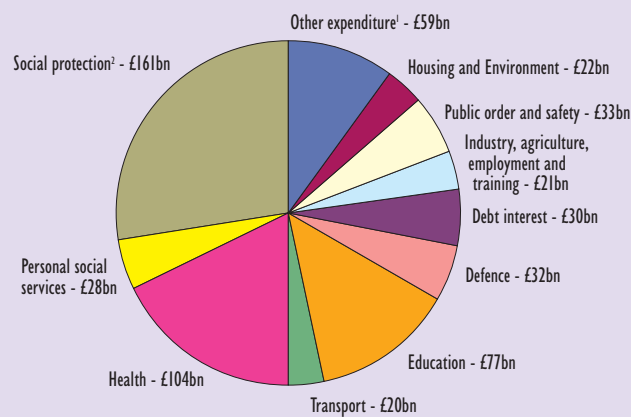




Where taxpayers' money is spent

Total public spending is expected to be around £587 billion for the coming year, around £9,650 for every man, woman and child in the UK. It is set to rise to £615 billion in 2008-09, £644 billion in 2009-10 and £674 billion in 2010-11.

Where taxpayers' money is spent



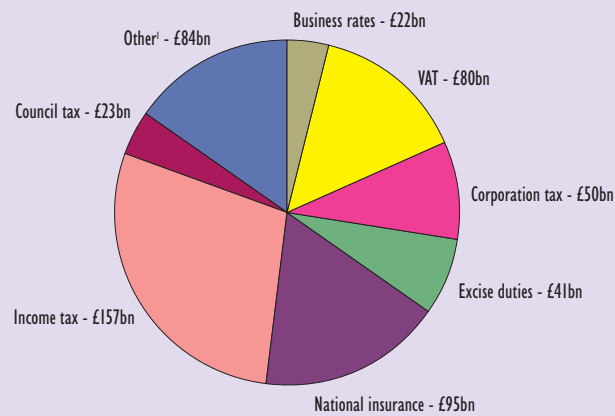
Total managed expenditure - £587 billion

¹ Other expenditure includes spending on general public services; recreation, culture, media and sport, international co-operation and development; public service pensions; plus spending yet to be allocated and some accounting adjustments.

² Social protection includes tax credit payments in excess of an individual's tax liability.

Source: HM Treasury, 2007-08 near cash projections. Figures may not sum to total due to rounding.

Where taxes come from



Total receipts - £553 billion

¹ Other includes capital taxes, stamp duties, vehicle excise duties, and some other tax and non-tax receipts (e.g. interest and dividends).

Source: HM Treasury, 2007-08 projections. Figures may not sum to total due to rounding.

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