

# Budget 2007

REGIONAL PRESS NOTICE

21 March 2007

## **Budget 2007 IN THE SOUTH EAST**

The Chancellor today announced a series of measures to increase productivity, improve people's access to employment, build a fairer society, improve public services and protect the environment in the South East.

This Budget sets out further reforms to lock in stability and to invest in the UK's future, including a major package of reforms to the corporate tax system to enhance international competitiveness, encourage investment and promote innovation, reducing the main rate of corporation tax to 28 per cent from April 2008, the lowest in the G7.

The Government is committed to promoting fairness alongside flexibility and enterprise to ensure that everyone can take advantage of opportunities to fulfil their potential. The Budget announces the next stage of reforms to the tax and benefit system, including removing the 10 pence starting rate and cutting the basic rate of income tax from 22 pence to 20 pence in April 2008, alongside increases in the Child Tax Credit and the threshold for the Working Tax Credit.

The Government's aim is to deliver world-class public services through sustained investment matched by far-reaching reform. The Budget announces that education spending in England will rise by 2.5 per cent each year in real terms (5.3 per cent in cash terms) on average between 2007-08 and 2010-11. As a result total education spending in England will rise from £63.7 billion in 2007-08 to £66.9 billion in 2008-09, £70 billion in 2009-10 and £74.4 billion in 2010-11.

Overall economic developments are as forecast at the Pre-Budget Report. The UK economy grew by 2¾ per cent in 2006, as forecast in the Pre-Budget Report. The Budget 2007 economic forecast is little changed from that of the Pre-Budget Report. GDP is forecast to grow by 2¾ to 3¼ per cent in 2007, and then at trend rates of 2½ to 3 per cent.

The Budget 2007 projections for the public finances are broadly in line with the 2006 Pre-Budget Report and show that the Government is meeting its strict fiscal rules.

### **THE SOUTH EAST**

This press notice sets out measures of particular relevance to the South East and the Government's regional policy agenda. The Budget takes new steps to

stimulate growth in the South East, strengthen regional institutions, improve the regional evidence base and increase regional input into national policy.

The South East of England Development Agency, along with the other Regional Development Agencies (RDAs), was asked to provide advice to contribute to the development of Budget 2007. This press notice responds in full to the RDAs' advice, including with regard to the role of the private sector in promoting regional economic growth, how to enhance regional competitiveness in the context of globalisation and measures to improve further the evaluation of RDA spend. The South East, along with other regions, has also provided advice for the development of the 2007 Comprehensive Spending Review.

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.

Budget 2007 also sets out the support that the South East of England 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 South East of England Development Agency will pilot in 2007-08 a simplified business resource efficiency advice service, through the Business Link. This will include on-site audits of resource efficiency, delivered consistent with and coordinated through the Business Support Simplification Programme.

To enhance further the quality of the regional evidence base, the Office of National Statistics, working in partnership with the RDAs, is establishing a full regional statistical presence in each region this month.

Announcements of particular interest to businesses and individuals in the South East include:

- **a major package of reforms to the corporate tax system** to promote growth by enhancing international competitiveness, encouraging investment and promoting innovation:
  - a reduction in the headline corporate tax rate from 30 per cent to 28 per cent from April 2008, making it the most competitive rate in the G7 and other major economies;
  - modernising and simplifying the capital allowance system;
  - further enhancements to the SME and large company R&D tax credit schemes;
  - increasing the small companies rate to reduce the advantage of extracting labour income by way of dividends; and
  - the introduction of a new Annual Investment Allowance (AIA) of £50,000 for all business who invest to grow.

- **maintaining the Government's commitment that private and public sector R&D investment each reach 2.5 per cent of GDP**, with the announcement of early Comprehensive Spending Review settlements for the Department for Trade and Industry's science budget and the Department for Education and Skills, which together will ensure that total investment in the public science base will rise by 2.5 per cent in real terms over the Comprehensive Spending Review period;
- **investing in the growth of the UK's science and innovation system.** The Government today announced a range of measures to enhance the leadership role of the Technology Strategy Board to promote innovation across all sectors of the economy, through: new targets for the Research Councils to increase the amount of collaborative R&D they conduct in partnership with the Technology Strategy Board, a £100 million competition for the Collaborative R&D programme; and the intention to explore three new Innovation Platforms;
- **encouraging growth through innovation** by increasing the headline SME R&D tax credit rate from 150 percent to 175 percent; and increasing the R&D tax credit rate from 125 per cent to 130 per cent from April 2008. This will build on the 1,340 R&D tax credit claims made in the South East last year;
- **the Government accepts Sir Michael Lyons' recommendations** that business rates yield remain linked to RPI and that the tax is not re-localised; Lyons also proposes a system of local business rate supplements. The Government will assess this proposal, but believes any future system of supplements must be based on strong accountability to business. Lyons examines the reliefs and exemptions in business rates. The empty property relief (EPR) was also identified by Kate Barker as a distortion to efficient land and property markets and barrier to UK competitiveness. In response the Chancellor announced today his intention to reform EPR from April 2008;
- following the Low Pay Commission recommendations, **raising the adult rate of the National Minimum Wage will rise to £5.52 per hour**, the youth rate, for workers aged between 18 to 21, to £4.60 and the development rate, for 16 and 17 year olds to £3.40; all from October 2007. This will benefit around 100,000 people on the minimum wage in the South East;
- **to provide further help to lone parents to stay in employment, by continuing to make In-Work Credit available to eligible lone parents in the current pilot areas until June 2008.** Around 32,100 lone parents are eligible for continued support in the Surrey & Sussex and Kent pilot areas;
- **removing the starting rate and cutting the basic rates of income tax from 22 pence to 20 pence in April 2008**, creating a simpler structure of two rates; a 20 pence basic and a 40 pence higher rate. This will benefit 2.3 million households in the South East;

- **increasing the upper earnings limit for national insurance by £75 a week above indexation in April 2008 and, from April 2009, fully aligning it with the higher rate threshold – the point at which taxpayers start to pay the higher rate of income tax, further simplifying the system;**
- **raising the aligned higher rate threshold and upper earnings limit by £800 a year above indexation in April 2009;**
- **increasing the higher personal allowances paid to those aged 65 or over by £1,180 above indexation in April 2008, thereby taking 50,000 over-65s out of tax in Yorkshire and the Humber. By April 2011, no pensioner aged 75 or over will pay any tax until their income reaches £10,000;**
- **increasing the child element of the Child Tax Credit by £150 a year above earnings indexation in April 2008, raising the child element to £2,080 a year. This will be of potential benefit to 352,000 families receiving Child Tax Credit in the South East;**
- **increase the threshold for Working Tax Credit by £1,200, to £6,420 in April 2008 further strengthening the incentives to work for families with children and low-income working households. This of potential benefit to 700,000 families receiving tax credits in the South East;**
- **an increase in the weekly rate of Child Benefit for the eldest child to £20 in April 2010, providing support to all families in line with the principle of progressive universalism. This will benefit the 970,000 families in the South East who receive Child Benefit;**
- **further reforms to modernise the tax system and protect tax revenues, including measures to tackle avoidance;**
- **to take the next steps in making a reality of personalised teaching and learning, including funding to provide an average of 10 hours of one to one tuition for over 300,000 under-attaining pupils a year in English by 2010-11, and a further 300,000 under-attaining pupils a year in Maths; and**
- **measures to help tackle climate change, including an announcement that from 1 October 2007 all new zero carbon homes costing up to £500,000 will pay no stamp duty, with zero carbon homes costing in excess of £500,000 receiving a reduction in their stamp duty bill of £15,000 and.**
- **an increase in fuel duty rates of 2 pence per litre (ppl) from 1 October 2007, and increases in the next two years of 2ppl and 1.84ppl respectively, and announcing car vehicle excise duty rates for the next three years, including rates for the most polluting cars rising to £400 and rates for clean cars in band B falling to £35;**

## **Annex – RESPONDING TO THE RDA INPUT INTO BUDGET 2007**

This annex outlines the input made by the RDAs for Budget 2007, and the Government's response to their recommendations.

### **A. The role of the private sector: RDAs are invited to consider the role of the private sector in maximising economic growth in regions and how public investment and policy can best leverage private sector investment and how it can avoid crowding out private sector investment and minimise deadweight in RDA investments**

**1. RDA recommendation: increased recognition of Regional Economic Strategy documents and regional priorities.** Proposition – to improve investment certainty at a regional level, we would welcome the greater use of the Regional Economic Strategy/Regional Spatial Strategy in determining regional priorities in public spending. An enhanced RFA process could be a vehicle for this.

**Government's response:** The Government believes that Regional Economic Strategies should be of central importance in determining how public spending of relevance to regional economic performance is used in each region. For this reason, each region was invited to provide advice to the Government for the Comprehensive Spending Review on how existing levels of expenditure could be better utilised to support priorities identified in Regional Economic Strategies and Regional Spatial Strategies. Relevant departments are taking into account this regional advice in their preparations for the Comprehensive Spending Review.

Regional Economic Strategies and Regional Spatial Strategies were also instrumental in determining the priorities for the 2005-06 Regional Funding Allocations exercise. The Regional Funding Allocation exercise enabled each region to advise the Government on priorities for transport, housing and economic development within indicative long-term budgets. Regions succeeded in achieving widespread consensus for long-term evidenced-based priorities within the indicative allocations. The sub-national review of economic development and regeneration is considering how the relationship between Regional Economic Strategies, Regional Spatial Strategies, Regional Funding Allocations and wider public expenditure can be developed further.

**2. RDA recommendation: continued work on rationalisation and simplification of public sector intervention programmes and bodies.** Proposition – develop a joint regional/national initiative aimed at ending duplication of support for training by employers.

**Government's response:** The Government agrees simplifying and rationalising existing structures and interventions can improve the skills supply side. This was an important underpinning principle of the Leitch Review of Skills which was published in December 2006. As a step towards this, the Government has already announced the merger of the Skills Alliance,

National Employment Panel and Sector Skills Development Agency into a single UK wide Commission for Employment and Skills.

The Department for Education and Skills, working with stakeholders, will publish a full implementation plan for the Review's recommendations in the context of the Comprehensive Spending Review settlement. There is also further work in hand to explore how Government programmes, including those on skills, can be simplified. Together with the sub national review, this work will examine how best the RDAs and the Regional Economic Strategies can ensure skills programmes are focused on the strategic economic development needs of the region.

**3. RDA recommendation: encouragement for Regional Investment Funds (RIFs).** Proposition - a firm commitment by Government supporting the principle of RIFs and the potential use of PGS to help resource them.

**Government's response:** The Government is interested in regions' proposals for Regional Investment Funds, building on last year's Regional Funding Allocations, as a means of leveraging in early private sector funding for housing and regeneration. The sub national review of economic development and regeneration is looking at how to develop the interface between the private and public sectors to maximise the effectiveness of investment in local areas. The Government will work with the RDAs in considering the proposal for Regional Investment Funds further. Working in partnership with key stakeholders, including RDAs, the Government will continue to develop practical models to lever in additional sources of revenue to finance early investment in infrastructure to support housing growth and regeneration.

**4. RDA recommendation: enhanced support for innovative forms of public-private sector partnerships.** Proposition – CLG and Treasury to work with RDAs in formative review of lessons and what works in these different structures.

**Government's response:** The Government agrees that RDAs should explore innovative forms of public-private partnerships, taking into account Government budgetary principles. The Government would welcome further advice, in the context of the sub-national review of economic development and regeneration, from the RDAs on lessons learned and examples of best practice.

**5. RDA recommendation: addressing regeneration funding in context of new state aid map.** Proposition – the development of clear State-Aid compliant delivery structures for regeneration and business support remains a priority.

**Government's response:** A new UK state aid map was approved in December 2006. Since then the Government has successfully notified the main regional business support scheme - Selective Finance for Investment in England - and has substantially expanded its coverage for SMEs. As a result, a clear, state aid-compliant delivery structure for SMEs is in place across England. In addition the Government is working with the RDAs to

revise appraisal guidance to ensure that clearer advice is available to enable RDAs to ensure the value for money of investments and ensure that they are consistent with EU state aid rules.

**B. Regional competitiveness in a global context: how can Regional Economic Strategies be better targeted on those factors most likely to drive regional economic growth and competitiveness in a global marketplace, and what are the institutional or other barriers to those improvements.**

**6. RDA recommendation: improving alignment of Regional Spatial Strategies and other key regional documents to reflect the primacy of the Regional Economic Strategies within the Regional Strategic Framework.** Proposition – formally align timescales for regional documents and ensure RESs are one of the key considerations in development of RSSs, including through the use of a shared evidence base.

**Government’s response:** The Government believes that the Regional Economic Strategy, developed by the RDAs in partnership with other regional and local institutions, should provide the common economic evidence base for the region and establish the priorities for long-term growth. Going forward, the Government is keen to enhance further the alignment between the shared evidence-base and priorities established by Regional Economic Strategies and priorities developed through the Regional Spatial Strategy process.

The sub-national review of economic development and regeneration is exploring options for enabling regions to strengthen the alignment in each region between the Regional Economic Strategy and other regional strategies, taking into account the need to enhance further coordination, efficiency and accountability at the regional level.

**7. RDA recommendation: devolving decision-making.** Proposal - In the context of the CSR, the Government should decide that RDAs and other key regional players should be tasked to deliver on new regional PSA targets, thereby obviating the need for an RDA-specific Tasking Framework.

**Government’s response:** In the comprehensive Spending Review, Public Service Agreements (PSAs) will represent the top priority outcomes that the Government as a whole wants to achieve in the next spending period, responding to the long-term challenges the country now faces. The Government will set clear outcome-focused Public Service Agreements across the Government according to the key challenges and opportunities the UK faces.

RDA input to these priorities is important and the Government is keen to ensure that RDAs are able to support delivery of these Public Service Agreements.

The Review of Sub-national Economic Development and Regeneration is looking at proposals to improve the effectiveness and efficiency of sub-national economic development and regeneration. The RDA strand of the Review is an opportunity to clarify, improve and simplify RDA performance

management arrangements and ensure they are more responsive to regional priorities.

**8. RDA recommendation: research on international best practice in regional development.** Proposition – HM Treasury/DTI/CLG jointly works with RDAs to develop a better understanding of relevant international best practice in regional economic development.

**Government's response:** The Government agrees that it is important for RDAs and central Government to learn lessons from other OECD countries on what works effectively in driving regional economic development. The evidence base for the sub-national review of economic development and regeneration has been informed by examples of American and European best practice. The Government is keen to discuss with the RDAs further practical means of taking forward this recommendation.

**9. RDA recommendation: devolving greater control of UKTI services in the regions to RDAs.** Proposition: UKTI trade services in the regions be formally transferred to the RDAs.

**Government's response:** The Government agrees there is scope for enhancing alignment between regional trade services and RDAs' business support responsibilities. The Sub-National Review is exploring options for taking this further. Lord Sainsbury's review of science and innovation will work with the Sub-National Review to explore options for optimising UK representation abroad.

**10. RDA recommendation: boosting the role of Technology Strategy Boards and Science and Industry Councils.** Proposition – increase and refine the scope of the Technology Strategy Boards and Science and Industry Councils and increase the level of resource that they can influence.

**Government's response:** The Government welcomes the move by the RDAs to set up business-led regional Science & Industry Councils, and supports the view that the Councils should be fully engaged with the Technology Strategy Board. The TSB will be taking on a wider remit to stimulate business innovation in those areas that offer the greatest scope for boosting growth and productivity. The new business led Board will operate at arm's length from Government and be fully operational by July 2007. The Government would encourage the RDAs, via the Science and Industry Councils, to explore the usage of TSB programmes to get maximum value from their innovation expenditure.

**C. Improving evaluation of RDA spend: building on the IEF, how will RDAs ensure a comprehensive, proportionate approach to the full evaluation of their impact and programme spend?**

**11. RDA recommendation: the Impact Evaluation Framework (IEF) -** The IEF provides the basis for moving forward. RDAs agree that more should be done on the evaluation of programmes and impact of their work. RDAs agree with the overall thrust of the Impact Evaluation Framework, that there should be robust guidelines for future evaluations but have some concerns that we

will work with HMT and DTI to address. RDAs would strongly welcome a more iterative process on evaluation with HMT and DTI and RDAs working to agree terms moving forward to make sure we get the most effective evaluations developed.

**Government's response:** Following the 2004 Spending Review, the Government and RDAs worked collaboratively to develop the Impact Evaluation Framework. The Government will work with the RDAs to strengthen this framework further and ensure that there are robust guidelines for future evaluations which are responsive to the specifics of RDA activity and remit. The Government agrees with the RDAs that enhancing the impact evaluation of RDA project and programme spend is key to demonstrating the value for money of RDA investment by the end of 2008.

**12. RDA recommendation: proportionate approach** - Evaluation spend needs to be proportionate to the investments we are making and follow good practice, for instance, that set out in the Green Book. The generally accepted position is that we should be spending between 1 and 3% of total budget on evaluation. RDAs believe that introducing a programme level approach to evaluation is the right approach to provide value for money to complement project evaluation and will be useful in assessing the long term impact of RDA interventions as opposed to short term outputs. RDAs will continue to provide monitoring information and will evaluate at a project level where there is a new or more high-risk approach.

**Government's response:** The Government agrees that evaluation of RDA expenditure should be proportionate, in line with the principles set out in The Green Book, Appraisal and Evaluation in Central Government, HM Treasury, 2003. The Government will work with the RDAs to determine the specifics of how this proportionate approach should be applied to RDAs' full programme expenditure.

**13. RDA recommendation: clear and simple requirements** - We would like clear and simple requirements from Government on evaluation rather than detailed and prescriptive guidance.

**Government's response:** The Government believes that, in line with the principles of devolving decision-making, guidance should be simple, clear and avoid being overly prescriptive. In developing a robust and fit-for-purpose approach to evaluation of RDA programme expenditure, it is important that simple and clear guidance enables effective comparability of the value for money offered by different interventions, by different RDAs and over time.

**14. RDA recommendation: a regional approach** - RDAs have agreed to have common themes and topics that will be asked as part of evaluation, but also need the freedom and flexibility to ask the questions most relevant to each region, programme and project.

**Government's response:** The Government believes that the evaluation framework should be responsive to the specific circumstances of each region. As set out above, it is important that simple, clear and responsive evaluation arrangements enable effective comparability of the value for money offered by

RDA spend. Comparability is key to ensuring that evaluation can be utilised by the RDAs as a tool for learning and shaping future programme expenditure.

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## **NOTES FOR EDITORS**

Further details of 2007 Budget Report announcements can be found on the HM Treasury website: [www.hm-treasury.gov.uk](http://www.hm-treasury.gov.uk).

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