

Budget 2006

**What the
Budget means
for London**

March 2006



HM TREASURY

London

Budget 2006



A strong and strengthening economy: Investing in Britain's future

The Government's economic objective is to build a strong economy and a fair society, where there is 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 sustained growth, to ensure the UK can continue to succeed in the global economy. This leaflet outlines the Government's regional economic policy and sets out what the Budget means for London.

Maintaining a stable economy

In 2005 the world economy was affected by the sustained rise in global oil prices. While many emerging markets continued to grow strongly, growth was slower in some advanced economies, including the major European countries to which the UK exports. The Government's economic reforms have helped the UK to maintain macroeconomic stability and continue to grow through this challenging period. The Budget projections show that:

- **the economy is expected to grow** by 2 to 2 ½ per cent in 2006, picking up to 2 ¾ -3 ¼ per cent in 2007 and 2008, 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 meeting its fiscal rules. Borrowing is forecast to be £37 billion in 2005-06 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 and to overcome regional economic disparities is to allow each region the freedom and flexibility to exploit local sources of growth. The nine Regional Development Agencies (RDAs) were therefore set up to drive economic growth in each region and local area in England.

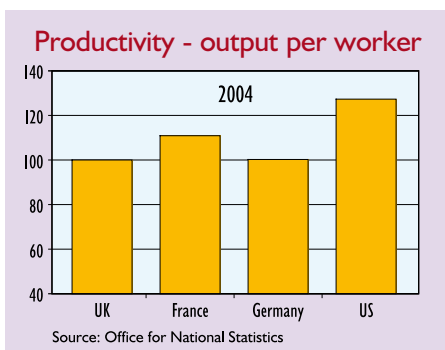
The London Development Agency, along with the other RDAs, contributed to the development of Budget 2006 on rationalising business support; creating links between national and regional frameworks on innovation; and increasing private investment in economic regeneration. Following this input, the Budget sets out a number of measures in response, including announcing that the Government will radically rationalise the number of business support services. London, along with the other regions, has also provided advice on their priorities within indicative funding allocations.

The Government has published *Devolving decision making: 3 – Meeting the regional economic challenge: The importance of cities to regional growth* alongside the Budget. This sets out the Government’s analysis of the role that cities play in enhancing regional economic performance. Building on this analysis, Budget 2006 announces that the Government will review the effectiveness and efficiency of economic development and regeneration interventions across local areas, cities and regions. This will be done in preparation for the 2007 Comprehensive Spending Review.

As an important contribution to delivering efficiency and devolving decision making, the Government has also published *The Review of Government Offices* alongside the Budget. This provides for a more strategic, streamlined role for the regional Government Office network.

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. Britain’s relative performance has been improving in recent years, with productivity now the same as Germany and moving closer to France. A flexible, enterprising and high-skilled economy with risk-based regulation, 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 2004, Gross Value Added (GVA) per head in London was 32 per cent above the UK average. Budget announcements include:



- in response to advice from the RDAs, an announcement that the **Government will work with the RDAs and other local and national bodies to reduce the number of business support services from around 3,000 now to no more than 100 by 2010;**
- **a package of measures to enhance the UK's position as a leading location for inward investment;**
- **extending the small and medium-sized enterprise research and development tax credit for firms with between 250 and 500 employees.** This will build on £842 million of research and development investment already carried out by firms in London;
- advancing the ten year Science and Innovation Framework, including further measures to create a world class environment for health research, and to enhance the supply of skilled scientists;
- **plans for reform of the further education sector,** making the most of the Government's investment in skills;
- **measures to improve the efficiency of the property investment market** through the introduction of Real Estate Investment Trusts; and
- **further plans to reduce the regulatory burden on business,** including new commitments to reduce the time that businesses spend filling in tax forms and dealing with tax audits and inspections.

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 over 200,000 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 12.8 per cent in that time and unemployment has fallen by 16.1 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. The Government is now taking further steps to deliver higher employment by:

- confirming the adult rate of the Minimum Wage will rise to £5.35 from October 2006, affecting 90,000 people in London;
- **extending the support offered to help lone parents into employment;** continuing to benefit around 137,500 lone parents in London;
- **rolling out the successful Pathways to Work pilots** for Incapacity Benefit claimants across the UK by 2008, to provide tailored support for those most in need to get back to work;
- responding to the recommendations of the Women and Work Commission, **with new funding to focus on helping low skilled women;** and
- **providing further help for jobseekers to ensure that they meet their responsibility to look for work,** potentially affecting 168,000 people currently claiming Jobseekers Allowance in London.

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 fair 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 to support families with children, help to tackle child poverty, and ensure continuity of income for people moving into work. By December 2005, around 412,900 families in London were benefiting from the Tax Credit system. 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 2006 announces further steps to promote a fairer society:

- **a commitment to increase the child element of the Child Tax Credit at least in line with average earnings to the end of the Parliament;**
- **further payments into Child Trust Fund accounts at age 7** of £250 for all children, with £500 for children from lower-income families;

- **an increase in the starting threshold for stamp duty on property to £125,000** to help first-time buyers;
- **an increase in the inheritance tax threshold to £312,000 in 2008-09 and £325,000 in 2009-10;**
- **free off-peak national bus travel in England for every pensioner and disabled person from April 2008**, affecting around 800,000 pensioners in London;
- **taking forward the ten year strategy for Childcare**, providing further help for working parents with their childcare costs and moving towards a nationwide network of 3,500 Children’s Centres; and
- **further reforms to modernise the tax system**, and a number of measures to clamp down on **tax fraud and avoidance**.

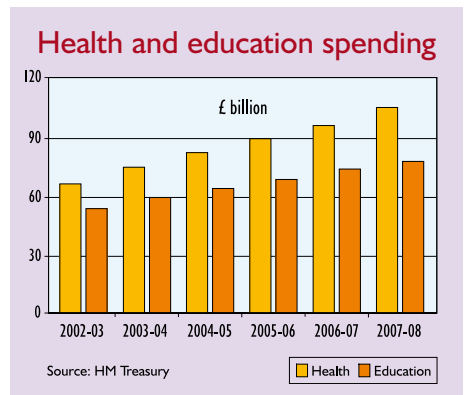
High quality public services

The Government is committed to providing new investment in Britain’s public services. Spending on public services will be over £60 billion higher by 2007-08 compared with 2004-05. Around 75 per cent of this increase will be spent on the Government’s priorities on education, health, social services, transport, housing and the fight against crime.

The Government is determined to secure value for money for the taxpayer and has set out plans for public service efficiency savings of over £21 billion by 2007-08, including through a reduction of more than 80,000 civil service posts. This will increase resources for front-line services. The Budget announces:

- **an additional £585 million to increase direct payments to schools in England;**
- **further funding to support the most talented British athletes** to prepare for the 2012 Olympics; and
- **a further £100 million to bring forward recruitment of Police Community Support Officers** for every neighbourhood.

The Budget also sets out plans for the Government’s second Comprehensive



Spending Review in 2007. This will include a national debate on the challenges and priorities for the UK's public services over the coming decade.

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 challenge 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 2006 announces:

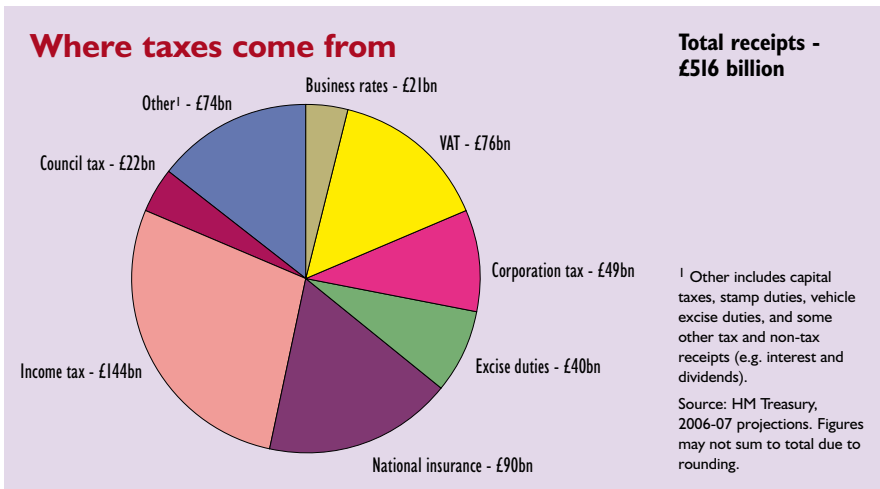
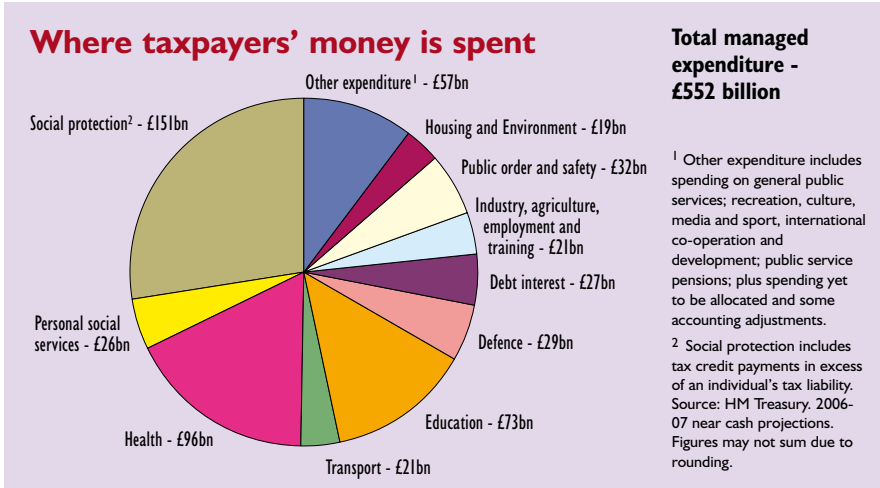
- **measures to improve household efficiency**, including subsidised insulation in over 250,000 homes and trialling the use of 'smart' gas and electricity meters;
- **measures to encourage energy efficiency in the business sector including an increase in line with inflation of the climate change levy, deferred to April 2007;**
- that Richard Ellis, Chair of the East of England Development Agency, will jointly chair a **working group with the Financial Secretary to the Treasury, consisting of RDAs, business organisations and the Carbon Trust who will examine how best to provide information and support to businesses on energy efficiency;**
- **reforms to vehicle excise duty** to introduce a new zero rate for the small number of cars with the very lowest carbon emissions and a new top band for the most polluting new cars;
- **an increase in line with inflation of fuel duty rates from 1 September 2006;** and
- **a freeze in the aggregates levy and air passenger duty.**

Household income

- A single earner family on half male average earnings - £15,800 - and with two children will be £3,950 a year better off compared to under the 1997-98 tax and benefit system.
- As a result of personal tax and benefit measures introduced since 1997, by October 2006, households in London will be, on average, £780 a year better off in real terms.

Where taxpayers' money is spent

Total public spending is expected to be around £552 billion for the coming year, around £9,200 for every man, woman and child in the UK. It is set to rise to £583 billion in 2007-08 and projected to rise to £610 billion in 2008-09.



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