

Budget 2005

REGIONAL PRESS NOTICE
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Budget 2005 IN THE NORTH EAST

The Budget takes new steps to stimulate regional growth in the North East, support improved local authority services, promote devolved decision making and strengthen regional institutions. The Government's long-term goal is for the UK to achieve sustainable and high levels of growth and employment and reduce disparities in regional economic performance.

The UK economy is forecast to grow at 3 to 3½ per cent in 2005 and the Government is meeting its fiscal rules for sound public finances over the economic cycle. The Government is committed to locking in this stability and making long-term decisions to invest in the UK's future, enabling all the countries and regions of the UK to meet the challenges and rise to the opportunities of the rapidly evolving global economy.

To increase regional involvement in national policies, ONE North East Regional Development Agency was asked to provide policy advice to feed into Budget 2005, in a number of areas: aligning regional transport, housing and economic development strategies and associated funding; business support; establishing the concept of science cities; the role of the Voluntary and Community Sector in regeneration of deprived communities; creating a culture of enterprise for all; sustainable development; and strengthening regional partnerships in adult skills provision. This press notice responds in full to the Regional Development Agencies' submission.

Measures to stimulate regional growth:

- the RDAs' publication of High Growth Business Coaching, which sets out how the RDAs will develop and deliver focused coaching for new and existing businesses with high growth prospects and high-potential entrepreneurs in the pre-start-up phase in each region;
- the designation of new science cities to join Newcastle, Manchester and York;

- proposals for a new Local Enterprise Growth Initiative (LEGI) worth £150 million per year by 2008-09 to promote enterprise and economic activity in the most disadvantaged areas of England. The LEGI will follow the time-limited commercial stamp duty land tax disadvantaged areas relief which the Budget announces will end on 16 March 2005;
- measures to raise productivity through plans to reduce compliance costs for business by implementing the Hampton Review; and
- measures to increase the contribution of creativity to productivity growth, including a review by George Cox of how SMEs can make better use of design.

Supporting improved local authority services: measures include new funding to enable every local authority to provide free local bus travel for people over the age of 60 and disabled people from April 2006, benefiting over 519,000 individuals in the region; refunding the VAT which local authorities incur in delivering services to meet a statutory obligation for adequate welfare provision; a single local services inspectorate acting as a gatekeeper and co-ordinator for all inspection activity; and the development of better procurement in accordance with the Compact Code of Good Practice on Funding and Procurement.

Further progress on the devolved decision making agenda: the Government has consulted on proposals to give the North East a stronger voice in future spending reviews, including establishing a North East regional transport funding allocation for the first time and providing guidance on long-term planning assumptions for regional transport, housing and economic development in the North East. The Government has held consultation events with stakeholders across the English regions, and received 107 written responses by the consultation deadline of 10 March, and is currently considering this feedback. The Government will set out how it intends to proceed in due course.

Strengthening regional institutions: today's measures announce the emerging proposals of the HMT/ODPM Review to improve the efficiency and effectiveness of the Government Office Network, including the Government Office of the North East.

In addition, an independent assessment for ONE North East Regional Development Agency, conducted by the National Audit Office, based on last year's Initial Performance Assessment of the London Development Agency, will be introduced during 2005/06.

Other key measures include:

- increases in the minimum wage with 80,000 jobs in the North East covered by the increase from October 2005;
- measures to promote employment opportunity across the UK, including improvements to Incapacity Benefit rules and a review of JSA sanctions;
- an additional payment guaranteeing that council tax paying households with someone over 65 will receive £200 towards the cost of council tax, benefiting 4.7m pensioner households nationally;
- a doubling in the starting threshold for stamp duty land tax to £120,000;
- a commitment to increase the child element of the Child Tax Credit at least in line with average earnings up to and including 2007-08, benefiting almost 110,000 working families in the North East;
- measures to increase savings including keeping higher limits for ISAs to 2010; and
- a partnership project to pilot a virtual young offender's institution that would provide a community-based alternative to custodial sentencing in the North East has won funding in this budget from the Invest to Save – Inclusive Communities fund.

ANNEX: RESPONDING TO THE RDAs' INPUT INTO BUDGET 2005

This Annex outlines the input made by the RDAs for Budget 2005, and the Government's response to their recommendations.

1. ENTERPRISE IN DISADVANTAGED COMMUNITIES

RDA recommendation: The national roll-out of successful pilot projects which have promoted the commercial benefits to businesses and the public sector of

encouraging underrepresented businesses (including ethnic minority owned) as part of their supplier base.

Government response: The Government announces today that, with the involvement of the RDAs, OGC and SBS will roll out nationwide measures to improve SMEs' ability to tender effectively for public sector contracts, including a focus on ethnic-minority owned businesses, building on the success of pilot projects in the West Midlands and Haringey. These involved 1,600 businesses, increasing the number of SMEs competing for public sector projects and increasing the overall success rates of SMEs. In the West Midlands pilot 25% of participating businesses were ethnic minority-owned.

RDA recommendation: Better information for and cooperation between local authorities in order to improve the promotion and encouragement of potential offered for new businesses in the Enterprise Areas. This could be an area for work on piloting further Local Area Agreements.

Government response: Since 1997 the Government has designated 1,997 Enterprise Areas in the most deprived wards in the UK, in which a number of specific policies to boost enterprise have been focused, including the Community Investment Tax Relief and the Phoenix Development Fund. The Government wants to empower local areas with the freedom and flexibility to develop local approaches to enterprise and growth in disadvantaged areas, which respond to local needs. Therefore, the Government is introducing a new Local Enterprise Growth Initiative worth £150m per year by 2008-09, to boost enterprise in the most deprived areas of England, following the end of the time-limited commercial stamp duty land tax credit disadvantaged areas relief. A consultation document is being issued today to determine the final details of the LEGI.

RDA recommendation: Further improvement of incentives via tax relief to invest in starter businesses in Enterprise Areas and for firms to get involved in local employment and local purchasing schemes.

Government response: Following consultation launched in the 2004 Pre-Budget Report, the Government will legislate in the Finance Bill for the introduction of the Business Premises Renovation Allowance. This will provide 100 per cent capital allowances in Enterprise Areas for the costs of renovating business properties that have been vacant for at least a year. The scheme will be brought into effect

subject to state aids approval. Budget 2005 also announces £10 million over three years to provide additional New Entrepreneur scholarships and additional support for business incubators in Enterprise Areas.

Budget 2005 announces a number of measures to help small and medium sized firms become involved in procurement schemes. As well as the roll out of the West Midlands and Haringey procurement pilots, the OGC and the SBS will launch a national portal for low-value contracts in the summer, making it easier for SMEs to compete for business; and to improve the coverage and quality of information available on SMEs' participation in procurement opportunities, the SBS will publish an annual review of departments' spending, and explore how to extend this to local government. Furthermore, the SBS, OGC and others will review SME and other procurement information gathering across government to investigate opportunities for efficiencies and more robust data.

2. ADULT SKILLS

RDA recommendation: Align business support and workforce development activity to build an integrated brokerage service that provides business with a range of services including access to training and skills development. This should build on the Employer Training Pilots, and include the RSPs having a role in increasing the vocational element of 14-19 education where regional partners agree.

Government response: As announced in the 2004 Pre-Budget Report, the Government will rollout a national Employer Training Programme from 2006-07 to cover the whole country by 2007-08. This will build on the success of the Employer Training Pilots and guarantee that, where employers are prepared to offer their low-skilled employees paid time to train up to level 2 qualifications, the costs of this training will be fully subsidised. Budget 2005 announces further plans to enhance workforce skills including continued support for the Employer Training Pilots. The national programme will also include support from brokers to assess, design and source training needs for employers and employees. Brokers will work with Business Link services, managed by RDAs, to give a better integrated 'front end' of business support.

The Government also welcomes the publication of the RDAs' High Growth Business Coaching,¹ which sets out how they will develop and deliver in every region focused coaching for new and existing businesses with high growth prospects and for high-potential entrepreneurs in the pre-start-up phase. Work over the next year will address the institutional arrangements to support coaching, and the Government welcomes plans for the RDAs and Learning and Skills Council (LSC) regions to develop the skills component as part of their wider arrangements to identify joint priorities and plans to deliver more demand-led skills provision in each region.

RDA recommendation: Streamline and align planning cycles, so all Sector Skills Councils plan on the same timescales, and that RDA and LSC plans can be more closely linked.

Government response: The Government recognises the importance of simplifying and integrating the way public sector agencies work at a regional and local level in providing adult skills training, and considers RSPs, led by the RDAs, to be the key mechanism for doing this. It is a challenging aim, as public support alone involves 3 million learners in 400 colleges and 800 other training providers, reflecting the needs of employers in 25 sectors, 9 regions and 47 local LSC areas.

On the SSC planning cycle, the Government recognises the need to better integrate their working into regional plans. In part this is because the SSCs are still in the process of establishing themselves - of the 25 planned SSCs only 4 will have produced a Sector Skills Agreement by March 2005 and a further 6 by the end of 2005.

The Government welcomes the overall progress reported in the RDA Budget input to aligning regional priorities for adult skills provision, including through developing 'dual key' arrangements for planning and funding adult skills and expects all RSPs to agree skills priorities, and reflect these in adult skills provision over the 2004 Spending Review. The Government also remains committed to removing obstacles, where regional partners identify them, to further integration.

¹ *High Growth Business Coaching - Executive Summary*, Regional Development Agencies, March 2005.

RDA recommendation: Increase the flexibilities available to LSCs and Jobcentre Plus to allow the development of place based approaches to meet regional demand assessments and move people from benefits into sustainable work, rather than meeting short-term numerical targets.

Government response: The LSC launched in December 2004 England's first annual statement of skills priorities. This set out what needs to be done to improve skills and boost productivity. That means that over time an increasing proportion of public funds for training at all levels will be allocated to the programmes that employers want. Although this is the first iteration of the LSC's annual Business Cycle it identifies as a priority the need to strengthen the LSC's capacity to work at regional level, particularly with Regional Development Agencies and Regional Skills Partnerships. Through this commitment the Government expects the LSC to strengthen its role in economic development so that it provides the skills needed to help all individual into jobs.

The Government welcomes the overall direction of travel and expects all RSPs to agree skills priorities, and reflect these in adult skills provision over the 2004 Spending Review.

The Government is committed to building on the success of New Deal, and to using its investment in staff, processes and information systems to enable the development of more locally-diverse labour market support. *Building on New Deal: Local solutions meeting individual needs*, published by DWP in June 2004, outlines proposals to give greater empowerment to local Jobcentre Plus staff, enhancing their ability to respond effectively to the needs of individuals and to challenges in their area.

3. SCIENCE AND INNOVATION

RDA recommendation: We urge, as on previous occasions, that the Research Assessment Exercise gives added weight and higher scores to those university departments that work with industry.

Government response: The Government recognizes the importance of working with business to encourage greater investment in R&D and innovation, and promoting closer collaboration between industry and the science base. In February 2005 the Higher Education Funding Council issued guidance to panels for the 2008 Research Assessment Exercise that included among its key criteria:

ensuring that appropriate measures of excellence are developed which are sufficiently wide as to capture all types of research, including practice-based research, applied research, basic/strategic research, interdisciplinary research. Where possible users and commissioners of research will be involved in the assessment process to provide an external perspective on the range of research under consideration.

RDA recommendation: The patenting approach needs to be simplified; the Patent Office could be more clearly tasked with strengthening IP in the regions, working with RDAs to build IP knowledge (of both registration and defence) into their business support infrastructure.

Government response: The Government is committed to creating an effective Intellectual Property (IP) regime which encourages business and the science base to translate research into commercial benefit. Following the Lambert Review of university-business collaboration, the Government facilitated the creation of an Intellectual Property Working Group, chaired by Richard Lambert and comprising representatives from business and universities, to draw up a range of model collaborative contracts and undertake work to develop an IP protocol, designed to reduce cost and time in securing IP agreements between businesses and universities in collaborative research. Five model contracts, together with new guidance and a decision guide for users, were released on 21 February (available on www.innovation.gov.uk/lambertagreements/). These will support university-business collaboration in all of the UK's regions.

RDA recommendation: Government could signal its support for science cities by taking into account regional development issues when making strategic research and development investment decisions (such as location of public R&D facilities); and give a clearer acknowledgement of the importance to regional economies of science and knowledge cities in national planning guidance.

Government response: The Government welcomes the announcement today by the RDAs that three further science cities will be developed in Bristol, Birmingham and Nottingham, joining Newcastle, Manchester and York. The Government considers science cities to be a valuable model for targeting investment in science and technology in cities that have particular potential to benefit from higher growth in this area.

Developing science cities requires a range of complementary policies led by the region and local area to address the specific needs of research and development, to support university-business collaboration, and influence a wider spectrum of factors that contribute to the growth of knowledge-intensive industries, such as skills, transport, finance and infrastructure. By bringing these factors together in a concentrated space, science cities can attract a critical mass of innovative businesses and become drivers of regional growth.

The 2004 Spending Review confirmed that UK research funding from Research Councils and HE funding bodies will continue to be driven by excellence wherever that may be found. Within this framework, the Government is working to ensure that national funding streams for science and innovation better reflect regional priorities. It is currently developing an allocations procedure for the third round of the Higher Education Innovation Fund, supporting universities' collaboration with business, and will consult with stakeholders on how funding for knowledge transfer can best be aligned with regional priorities. The next round of the Science Research Infrastructure Fund, which provides capital funding of £500 million per annum to renew university infrastructure, will require universities to develop their implementation strategies in light of regional priorities, and make research facilities more accessible to businesses as well as academic users.

4. RDA COACHING FRAMEWORK

RDA recommendation: We propose that in 2005/6 RDAs will establish a task and finish group to develop a model for the delivery of a demand led SME coaching framework in their regions. This work will feed directly into Treasury consideration for the development of the 2006 Spending Review.

Government response: The Government welcomes the publication today of the RDAs' High Growth Business Coaching, setting out how they will develop and deliver in every region focused coaching for new and existing businesses with high growth prospects and for high-potential entrepreneurs in the pre-start-up phase. The Government supports the proposal to establish a task and finish group as above and will work with the RDAs in developing the new RDA coaching framework announced today.

5. ALIGNING REGIONAL STRATEGIES

RDA recommendation: Better alignment of the time periods to be covered by each strategy, with a clearly stated consistent review process and timetable. However, we caution against overly prescriptive guidance on the content of strategies – it is for each region to decide on how best they are aligned.

Government response: The Government is committed to helping regions align their strategies and welcomes the RDA input. We will produce a response to the call for alignment of timetables as part of our response in due course to the issues raised in the recent consultation on Regional Funding Allocations.

RDA recommendation: On aligning spending within economic development, there continues to be a lack of any clear incentives for many spending bodies to get involved in a meaningful way with any attempts by RDAs and regional partners to co-ordinate investment. RDAs are keen to explore ways of working with Government to better align spending by other government agencies with RES priorities in each region.

Government response: Building on the Regional Emphasis Documents which enabled regions and Departments to discuss spending priorities over 2005/6 to 2007/8, the Government has published proposals to give regions a stronger voice in decisions over regional transport and regional housing, as well as regional economic development. These would increase the influence of regional strategies - including the RES - on regional funding allocations for transport, housing and economic development. Following completion of the consultation, the Government is currently considering its response.

6. SUSTAINABLE DEVELOPMENT

RDA recommendation: Support for fiscal incentives (designed to be fiscal neutral) to encourage use of sustainable material and processes including council tax rebates for homes meeting Eco-homes/BREEM excellent ratings standards and/or Stamp Duty relief for homes meeting Eco-homes/BREEM excellent ratings standards

Government response: Budget 2005 announces a reduced rate for the installation of micro-combined heat and power (micro-CHP) and also extends the reduced rates to air source heat pumps. The Government is also committed to measures to support investment in energy efficiency in the private rented sector.

The Landlord's Energy Savings Allowance (LESA) was introduced in 2004 to encourage investment in cavity wall and loft insulation, and Budget 2005 announces the extension of the LESA scheme to cover solid wall insulation.

The Government's strategy for housing places key housing, planning and regeneration policies in the context of wider requirements for sustainable communities. The Government has already taken a number of steps to improve the energy efficiency of housing, including: amending Building Regulations from 2005 onwards so that new homes must be at least 25 per cent more efficient in their use of energy and incentivising improvements in new and existing social housing.

The Government is developing, in consultation with the building industry, a voluntary Code for Sustainable Buildings, which will set new standards for resource efficiency in the build environment, focusing initially on new housing. Demonstrations of the Code will be in place by the end of 2005, followed by national rollout in 2006.

HM Treasury will host later in the year a summit to explore how Government and business can remove barriers to the development of energy services markets in the UK. Energy services focus on the provision of heat, light and power rather than just units of energy.

RDA recommendation: Leadership from the public sector nationally in procurement policies and its own use of resources.

Government response: On 7 March the Government launched its revised Sustainable Development Strategy. As part of the strategy a business led task force chaired by Sir Neville Sims will develop a new action plan for sustainable procurement.

NOTES FOR EDITORS

Further details of Budget 2005 announcements can be found on the HM Treasury website: www.hm-treasury.gov.uk. Additional detail is also included in the press notices listed below.

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