

Pre-Budget Report 2004



Opportunity for all:

The strength to take the long-term decisions for Britain

The Government's objective is to build a strong economy and a fair society, where there is opportunity and security for all. The Pre-Budget Report sets out how the Government is working to achieve this goal, building on a platform of stability and sustained growth to ensure that Britain can continue to succeed in the rapidly changing and increasingly competitive global economy. This leaflet outlines the Government's regional economic policy, is part of the Government's commitment to promote dialogue with the regions, strengthen regional input into policy making and communicate the results directly to the regions, and sets out what the Pre-Budget Report means for the East Midlands.

Maintaining a stable economy

The world economy has strengthened in 2004 following downturns in many major countries over the past four years, though a number of 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 Pre-Budget Report shows that:

- **the economy is expected to grow** by 3¼ per cent in 2004 and by 3 to 3½ per cent in 2005;
- **inflation is set to remain low and stable**; and
- **the public finances** remain sound and the Government is meeting its strict fiscal rules. Borrowing will be £34 billion this year and debt is lower than the US, Japan, Italy, France and Germany.

The global economy is experiencing a period of far-reaching and fundamental change, driven by advances in technology, greater international trade and investment, and rapid growth in many emerging markets, particularly China and India. These changes have the potential to bring great increases in global prosperity. The Government is committed to long-term reforms aimed at ensuring the UK is well-placed to prosper in the changing global economy, by promoting a stable economy which is flexible, enterprising and strong in innovation and skills.

Regional Policy

The Government has made significant progress towards establishing the framework for a modern regional policy designed to strengthen regional productivity and employment and, therefore, to reduce regional disparities. Key to this regional policy agenda is the

Government's high-level target to make sustainable improvements in the economic performance of all English regions and, over the long term, reduce the persistent gap in growth rates between the regions.

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. To enable each region to meet its objectives, the Government's approach is to establish and develop efficient, innovative and accountable sub-national institutions.

The East Midlands Development Agency (emda), established in 1999, is the key strategic leader of economic development in the East Midlands. Since its creation, emda, along with the other Regional Development Agencies (RDAs), has helped promote employment, entrepreneurship, innovation, skills and regeneration in the region.

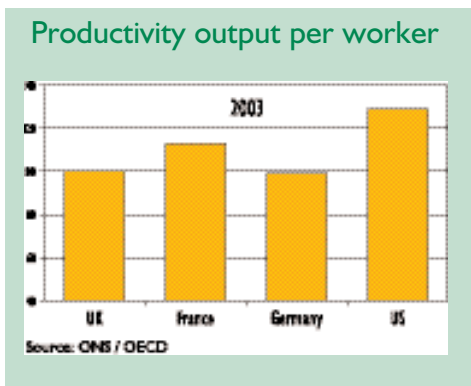
Pre-Budget Report 2004: promoting regional flexibility

The Government is committed to going further to promote the flexibility of regional and local institutions and to address the barriers they face to realising their objectives.

Devolving Decision Making: A Consultation on Regional Funding Allocations published alongside the Pre-Budget Report sets out Government proposals to involve the regions more in decision making on regional transport, economic development and housing. In this document, the Government proposes to provide clearer funding assumptions - including providing regional transport allocations for the first time and planning guidelines for the longer term - to provide a better basis for regions to plan and to give them a stronger voice in the next Spending Review. The Government has also asked the RDAs to contribute to preparation of Budget 2005. emda and the RDAs were asked to respond on: 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.

Promoting enterprise, innovation and skills in the East Midlands

Britain has high employment levels but the amount of output produced per worker - productivity - has historically been lower than in other major economies. Recent figures suggest the UK's performance is improving, with productivity on an output per worker basis now higher than Germany and moving closer to France. 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 2002, Gross Value Added (GVA) per worker in the East Midlands was 8.2% below the UK average. The 2004 Pre-Budget Report announces new measures to help improve productivity in the East Midlands, by boosting skills, science and enterprise.

Skills

In the East Midlands, 10 per cent of 16-18 year olds were not in employment, education or training on average between 2000-2003 compared to an England average of 10 per cent. To raise the region's skills levels, which is crucial to productivity growth, measures include:

- a **National Employer Training Programme** providing free and flexibly delivered training for low-skilled adults in work, **and a new review to look in depth at the UK's future skills needs**, potentially providing up to **20,000** additional NVQ Level 2 qualifications in the East Midlands; and
- details of **New Deal for Skills Pilots** including new pilots to test a learning allowance to help low skilled benefit claimants access full-time training without losing their benefit.

Science and innovation

Science and innovation are key drivers of productivity growth. Recent OECD research found that 1 per cent growth in public research and development leads to a 0.17 per cent increase in total factor productivity in the long run. In the East Midlands, business spending per head on research and development is £252, compared with a UK average of £221. The Pre-Budget Report announces a range of measures to further support the policy objectives set out in the Government's ten-year Science and Innovation Investment Framework, published in July. The key announcements are:

- developing the regional science and innovation agenda, highlighting the role of **Regional Development Agencies and the concept of Science Cities**; and
- **removing uncertainty over the tax treatment of employee share remuneration for university spin-off companies** potentially benefiting 8 Higher Education and Research Institutions in the East Midlands.

Enterprise

In 2003 there were 37 VAT registrations per 10,000 head of population in the East Midlands, compared with an England average of 42 per 10,000 population. To raise productivity through promoting an enterprising economy, the Pre-Budget Report announces:

- implementation of the changes recommended by **the Graham Review on the Small Firms Loan Guarantee** by end-2005 - a major deregulation and simplification

of the scheme, refocusing support on those businesses that need it most. Typically benefiting 361 firms in the East Midlands each year; and

- Reforms to reduce the regulatory burden on business, and publication of the interim report of the Hampton Review, consulting on improvements to the current system of regulatory inspections and enforcement..

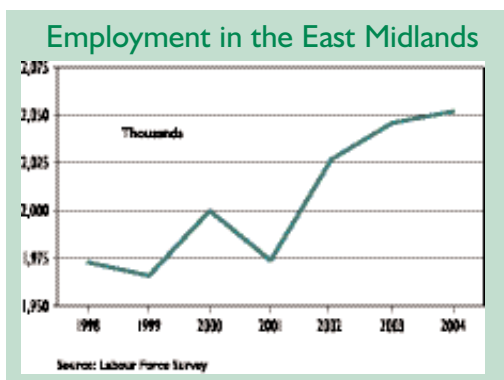
Increasing employment opportunity for all in the East Midlands

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 fulfil their potential.

Since 1997, the New Deal has helped nearly 113,020 people into jobs in the East Midlands. The number of people in work, in the East Midlands, has risen by 5.7 per cent in that time. Unemployment in the UK has fallen to 4.6 per cent, which is the lowest of the G7 economies. The New Deal has also helped to provide greater employment opportunity for people who find it harder to obtain jobs, such as lone parents and people with disabilities.

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 and has already helped 181,000 working families and 18,800 low-income working households without children in the East Midlands. The Government is now taking further steps to deliver higher employment across the country by:

- **providing extra support for people on incapacity benefits who want to return to work**, through a major extension of the successful Pathways to Work pilots, announcing wider benefits changes and providing extra help for GPs in promoting recovery and rehabilitation;
- **increasing the Working Tax Credit thresholds by £3 per week**, to ensure that families with rising incomes retain more of their tax credits in 2005-06;
- **introducing a new Housing Benefit Reform Fund** to finance reform to ensure that Housing Benefit does not constrain the ability of the unemployed to find work; and
- **piloting a Learning Allowance** that will allow benefit claimants to participate in full-time training.



Building a fairer society in the East Midlands

The Government wants to build a fairer society in which everyone can contribute to and share in rising national prosperity. The Pre-Budget Report sets out the steps the Government is now taking to help families with children, to promote savings and ensure security in old age, and to build a modern tax system in which everyone pays their fair share.

Introduced in April 2003, the Child Tax Credit provides a secure stream of income for families with children, helping to tackle child poverty. By April 2004 339,000 working families in the East Midlands, were benefiting from the support it provides. The Pension Credit, introduced in October 2003, provides extra help for low and modest-income pensioners and rewards those who have saved for retirement. Around 187,000 pensioner households are eligible in the East Midlands.

In the Pre-Budget Report, the Government takes further steps to promote a fairer society, including:

- **a ten-year strategy to promote childcare**, setting out how the Government will achieve its vision of affordable, high-quality childcare for all parents who need it, including from 2006-07, an increase in the maximum share of childcare costs met in the childcare element of Working Tax Credit from 70 to 80 per cent. 24,900 families in the East Midlands will benefit;
- **an extension of paid maternity leave to nine months** from April 2007, and improvements to the childcare element of the Working Tax Credit;
- a package of measures to ensure that everyone has **access to banking, affordable credit and free face-to-face money advice**;
- **a payment of £50 to households with someone aged over 70** to help with council tax and other living expenses, paid by the end of December 2005 454,000 pensioners in the East Midlands will benefit;
- **promoting saving** through Individual Savings Accounts (ISAs), the Saving Gateway and the Child Trust Fund; and
- **measures to promote fairness in the tax system**, tackle tax fraud and avoidance, and protect revenues.

Delivering high quality public services in the East Midlands

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 will be £61 billion a year higher by 2007-08 compared with 2004-05. Over 75 per cent of planned increases 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 has set out plans to achieve efficiency gains across the public sector of over £20 billion a year by 2007-08, including through a reduction of more than 80,000 civil service administrative posts. This will release resources for front-line services. The Pre-Budget Report:

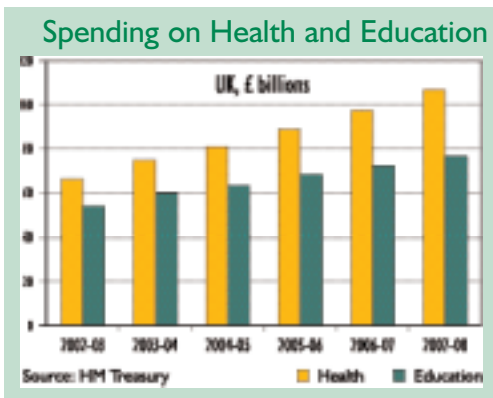
- describes progress on **departmental efficiency plans**, including savings on medicines for the NHS of £1 billion per year from 2005-06, value for money gains of £2 billion in central government procurement, and a total of around 4,000 public sector posts moving out of London and the South East by the end of 2004-05;
- **allocates extra financial support for local government** to help deliver public service improvements and ease council tax pressures; and
- **announces that to meet the UK's commitments in Iraq** and elsewhere in the fight against terrorism, an additional £520 million will be made available in 2004-05.

Protecting the environment in the East Midlands

The Government believes that economic prosperity must be achieved while protecting the environment to ensure a better quality of life for everyone, today

and for future generations. It is committed to tackling global problems, such as climate change, and to improving the local environment in Britain's towns, cities and rural areas. The Government is also committed to promoting an efficient and environmentally sustainable transport system. The Pre-Budget Report sets out:

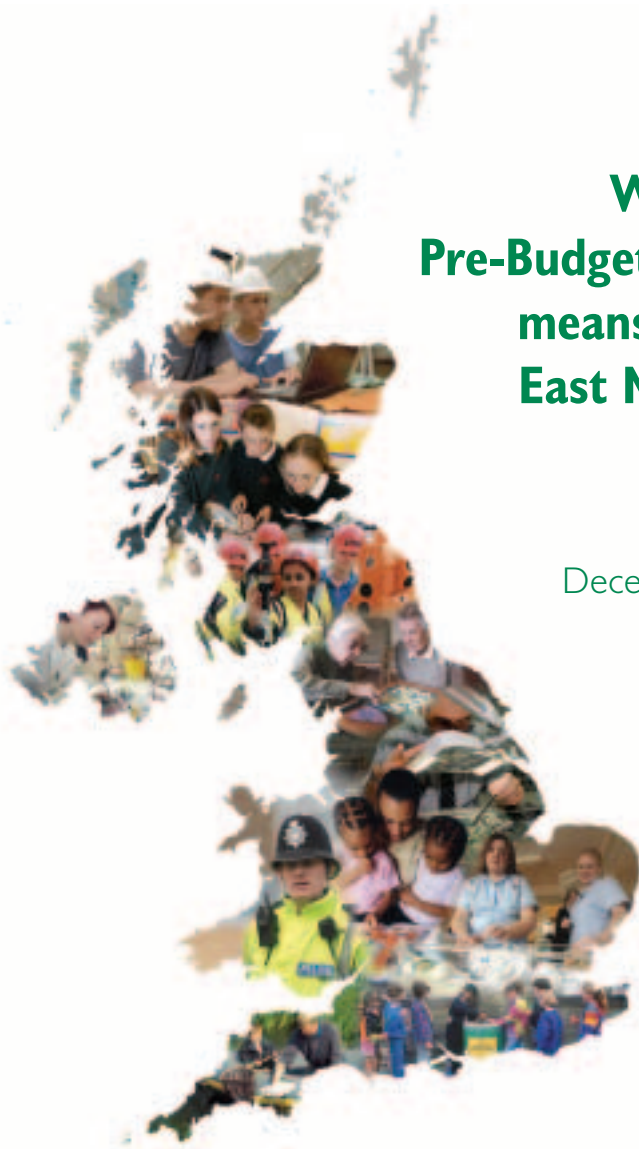
- that with climate change a key priority for the UK's G8 and EU Presidencies, **the Government announces the launch of an Energy Efficiency Innovation Review** and a new fund of £20 million to accelerate the uptake of energy efficiency technology;
- **the continuation of the freeze on main road fuel duties**, in response to the sustained volatility in the oil market; and
- measures to **promote the use of cleaner fuels and vehicles, including support for the development of biofuels.**



Pre-Budget Report 2004

What the Pre-Budget Report means for the East Midlands

December 2004



HM TREASURY

East Midlands