2005 Pre-Budget Report

PRE-BUDGET REPORT STATEMENT TO THE HOUSE OF COMMONS DELIVERED BY THE RT HON GORDON BROWN MP, CHANCELLOR OF THE EXCHEQUER, 5 DECEMBER 2005

Mr Speaker

Having taken the long term decisions to achieve and sustain low inflation and economic stability, the task of this Pre Budget Report is to meet and master the global economic challenge, making the critical decisions to secure Britain's long term economic future.

And the theme of this Report is that, by combining our enterprise with investments in skills and science, infrastructure and housing, at every point matching investment with reform, Britain can lead in the world's most wealth generating and dynamic sectors – in science and modern manufacturing, in finance and capital markets, in education and the creative industries.

And with fiscal discipline, and by matching investment and reform in welfare and our public services, we can combine a strong economy with opportunity and security for all.

Mr Speaker, the last year has seen a virtual doubling of global oil and commodity prices.

In the USA inflation has risen to 4.3 per cent.

In the euro area inflation forced a rise last Thursday in interest rates.

Across Europe and America almost a million manufacturing jobs have been transferred to Asia and a quarter of a million service jobs outsourced.

While all countries have faced global inflationary pressures, the British economy has also had to deal with domestic inflationary pressures – to achieve what we and the Bank of England identified early last year as the necessary slowing of house prices and consumer spending – which some in this House predicted would return Britain to the old familiar stop-go cycle of overheating, inflation and recession – and under previous monetary and fiscal regimes, did so time and time again.

In the last eight years our new macroeconomic framework has been tested - in 1997 when domestic inflation had to be curbed; and in 1998 and 2001 with two global crises – the first starting in Asia and the second the IT crash, the US downturn and falling stock markets round the world.

Now in 2005, tested by both domestic and global pressures, we are on course to meet our inflation target of 2 per cent. And house prices, which were rising at 15 per cent each year for three years, and at their peak rose by 25 per cent, have moderated to 3 per cent.

This is in stark contrast to previous decades when our economy faced simultaneous domestic and global inflationary pressures – in 1990 when inflation went to 11 per cent, in 1980 to 22 per cent and in 1975 27 per cent, when a cycle of overheating and inflation could only be brought back under control by mortgage interest rates above 10 per cent, recession and unemployment.

But today when, more than ever, stability and low inflation are the essential foundation for investment and job creation, Britain ends this year with inflation lower than America, lower than the euro area, lower than the European Union as a whole. And we are on course to meet the inflation target of 2 per cent, not just this year, but next year and the year after that.

The average inflation in Britain from 1970 to 1997 was 8 per cent, with inflation often going above 20 per cent.

Our stability since then is such that in the last seven years inflation has been at or around 2 per cent.

As Chancellor I have always understood that the strength of a monetary and fiscal regime is how it performs, not just in the good years but in this, the toughest and most challenging year for the economy.

Mr Speaker, this year we have seen inflation not above 10 per cent but around 2 per cent; interest rates not rising above 10 per cent but peaking below 5 per cent; unemployment not as in the past at record highs, but at record lows; not the economy in recession, but growth even in this toughest year at 1.75 per cent; the 34th quarter of continued growth with low inflation - continued growth under this Government.

The first Government of any party to achieve 8 years of uninterrupted growth since 1805.

For the fifth successive year running, British growth higher than France, higher than Germany, higher than Italy, higher than the euro area, higher than the European Union.

And British business investment already rising this year by 3 per cent is expected to increase again next year by 3.0 to 3.5 and then in 2007 by 4.5 to 5.25 per cent.

Overall domestic investment which is growing this year by 2.75 per cent is set to grow next year by 3.75 to 4.25 per cent and then in 2007 by 4.75 to 5.25 per cent.

And as production grows, we expect exports to rise by more than 5 per cent next year and the year after

Globally, there are continuing risks from trade imbalances, exchange rate movements and commodity price shocks and domestically, monetary policy will continue to closely monitor the housing market and consumer spending.

Domestic demand is projected to grow at the same rate of the economy, overall growth projected in 2006 at 2 to 2.5 per cent and in 2007 and 2008 2.75 to 3.25.

Mr Speaker, some said that as we moderated the housing market and responded to the oil shock, employment levels in this country would fall, and we would end the year with fewer people in work.

In fact I can report to the House that in just 12 months employment has risen by 330,000 to 28.8 million and is the highest in the country's history.

Higher in every region and nation of the UK.

This year the economy has been generating 6,000 new jobs every week – with 3,500 new companies formed each week .

Indeed, of the extra jobs since 1997 almost 1 million have been created by small businesses.

And by tackling youth and long term unemployment, the New Deal has helped ensure that while unemployment in the USA is higher than ours, and in France and Germany much higher at nearly 10 per cent, in Britain unemployment is today lower than 5 per cent.

And we know that continuing this record of high employment with low inflation demands continued wage responsibility in all sectors. So the Health Secretary is submitting evidence to the pay review body that headline rise in NHS pay should be based upon our 2 per cent inflation target, and the Education Secretary is announcing that even after taking account of annual increments and performance pay the total increase in the education pay bill will be just 2.8 per cent – both signals of our determination to keep public pay costs under control and contribute to low inflation.

Upon this foundation of stability our task is to match investment with reform in science and skills, infrastructure and housing – and show that working in partnership with the private sector, we can best meet the challenge of globalisation.

First, although we have already doubled investment in science, global competition requires us to continuously update our ten year framework.

With, this week, a new public private partnership, supported by £50 million of new public investment, Britain is determined to lead the world in the new frontier of genetics – stem cell research

And with the establishment of a new National Institute for Health Research in the NHS, pharmaceutical and biomedical companies have just announced a new half billion pound a year investment in Britain, making Britain the leading location for research in new drugs and treatments.

To support research and development across modern manufacturing I am announcing reforms to help access the R&D tax credit.

The design of new products and services is now such an important sector that we propose a network of creativity and innovation centres -- one in each region offering start up help to new design talent and supported by an expanded national centre in London to showcase British design.

Because we have learned in the past that the neglect of investment in science holds our economy back, we are determined to make the necessary long term investment – Government and private sectors working together to make us fully equipped for the global challenge. And the same is true in skills.

The successful economies of the global era will be the high skill economies.

Published today is the interim report of Lord Leitch, the first long term assessment of our future skills needs.

Since 1997 we have more than doubled investment in education and the Leitch Report finds that with this new investment, the numbers of adults with basic skills has risen from 79 per cent to 86 per cent.

But workers will on average change jobs seven times during a working life, and the vast majority of today's workers will need to train or retrain for tomorrow's skills.

The final Leitch proposals for reform will come next year. But to step up the pace of change now, the National Employer Training Programme – which offers free training for employees, help for all small firms with their costs – will, from next summer, be expanded nationwide to provide training in 50,000 companies for 300,000 employees a year.

Some people seek to abolish the New Deal. But more than ever a Britain equipped for the global economy needs a New Deal that continuously equips people for jobs and skills, so this Government will not abolish the New Deal. We will strengthen it.

In eight areas of the country teenagers who have too often fallen through the net and are receiving no training will be offered learning agreements: a training wage in return for gaining skills. No teenager should be denied the opportunity to acquire the skills and employment they need.

And with opportunities, responsibilities. The New Deal pilots to help lone parents back to work will be extended to new areas of the country. And for men and women unemployed six months or over, we will pilot from April, personal action plans starting with compulsory interviews and an intensive work plan.

Our third economic challenge is to make more affordable housing available for the rising number of families seeking homes.

In the last eight years low inflation and low interest rates have given homebuyers the lowest mortgage rates for 40 years and there are one million more homeowners now than in 1997.

But to build more affordable homes of high quality in strong communities, Britain must – as the Barker Report recommended – put in place long term reforms in planning, land use, the competitiveness of the construction industry and infrastructure in both the private and social sectors

The Deputy Prime Minister is today responding to the joint representations from the CBI, the Town and Country Planning Association and Shelter, and publishing new planning guidelines that seek to bridge the gap between the 150,000 new houses we build each year and the 190,000 new households, and in particular to build houses that young couples can afford.

To provide land for new homes, while protecting and improving the environment, he is asking local authorities to bring forward more brownfield areas for development

Where proposed new housing is of high quality meeting the design code, local authorities will be obliged to accelerate planning consent.

The construction industry must also rise to the challenge of building more homes and investing in skills.

To widen the number of investors in the residential and commercial property markets, we will this month publish legislation to set up in Britain Real Estate Investment Trusts that will increase the funding of new property developments.

And because our aim is to build not just homes but communities: to fund the new roads, schools, hospitals and infrastructure that convert estates into genuine communities, building on the recommendation of Kate Barker, we are today publishing for consultation proposals for a local planning gain supplement to give local authorities a fair share of planning gains to invest locally.

Investment in social housing has almost doubled since 1997 but will have to rise further. And we are announcing pilot projects today to encourage local authorities to bring derelict sites back into use and build more new housing for rent.

We know that shared equity has an increasing role to play in helping young couples in all our constituencies get on to the first rung of the housing ladder, and I can tell the House how we plan to extend shared equity schemes.

I can announce that three of the biggest building societies and banks have joined the Government as partners in shared equity; that building companies, including four of the biggest builders, are also now able to offer shared equity purchases; that we are now in discussions with investment companies on their possible involvement; and that we see a future role for housing associations in extending shared equity.

Our aim: a new consensus across our country on the extension of homeownership and affordable housing – public and private sectors working and investing together to strengthen our economy, protect the environment and meet the housing needs not just of some but of all.

Mr Speaker

As part of the figures I am publishing today let me confirm that already this year the first £4.7 billion of savings identified by the Gershon Review have been achieved. With the Government's target of £3 billion procurement savings exceeded by £1 billion, a year early.

On target, we have also seen the reduction of a further 18,500 civil service posts, including over 10,000 from the Department for Work and Pensions and 3,500 from Revenue and Customs.

And I can also confirm that we are on target with the relocation of a further 2,000 civil service posts out of London including to Bridgend, Cardiff, Derby, Leeds, Edinburgh, Liverpool, Manchester, Newport and Taunton.

And ahead of schedule, £5.7 billion of assets have been sold - on target to meet our objective of £30 billion by 2010. And in the coming year we will conduct a zero based asset review

In addition to the new measures we have announced to implement our risk based approach to regulation in Britain tomorrow, I am proposing to the EU competitiveness tests for new and existing regulations.

I am closing a relief under which, for tax reasons only, people are being persuaded without changing what they do to set up a company, replacing the £10,000 starting allowance with a rise in the investment allowances for smaller businesses to 50 per cent.

I have today written to the European Commission asking for a derogation so that over 1 million businesses with turnovers, not at the current 660,000, but at £1.35 million or less will be able to take advantage of more flexible VAT payment options to suit their business needs.

After consultation with British film makers, I can announce a new film tax credit to support British films, increasing support directly for producers, so we can guarantee credit worth 16 per cent for large budget films and at least 20 per cent for small budget films.

Anti-avoidance and fraud measures published today, including new requirements for disclosure, will address artificial tax arrangements involving capital gains and losses, trusts and offshore companies, rebated oils, and the misuse of SIPPS schemes to purchase second homes.

From reallocations to local councils from departments, £305 million in 2006 and £508 million in 2007 will be made available to reduce pressures on the council tax. Later this afternoon the Minister for Local Government will give full details.

I can tell the House that the current budget deficit which reached a peak of £55 billion at today's prices in 1993 will fall from £19.9 billion last year, to 10.6 billions this year and then to 4, then 0, and then a surplus of 7 and then 11 and then £13 billion in future years -- meeting the fiscal rule in this cycle by more than £16 billion - in contrast to the deficit over the last cycle, 1986-1997, of one hundred and fifty seven billion pounds.

And it is on the basis of this fiscal rule and our second rule, the sustainable investment rule, that the Government will plan its 2007 spending review, including our response to the long term reviews on transport, pensions, energy and skills.

Our second rule allows us to borrow for essential public investment, as long as there is a sustainable level of debt.

In 1997 the nation's capital investment in schools and colleges was just half a billion a year. Today we are investing seven billions a year, on track to renovate 12,000 more primary and secondary schools.

In 1997 Britain invested just over £1 billion a year in building and renovating hospitals, today the figure is £5 billion a year rising to £8 billion a year in 2008.

And investment in transport is doubling.

In total, net public investment which was just £5 billion a year in 1997 will this year be five times as high - £26 billion and next year £29 billion.

Even with this record investment, we meet our second rule, that ensures borrowing for investment within sustainable levels of debt.

Net debt levels will be 36.5 this year and in future years 37.4, 37.9, then 38.2, 38.2, 38.2, at every point lower than today's 44 in France, 47 per cent in the USA, 61 per cent in Germany, 81 in Japan.

So Mr Speaker, our debt levels are lower than our major competitors.

End even as we borrow not for short term consumption, but for long term investment, our borrowing levels are also lower than major competitors.

Total net borrowing, which reached £51 billion in 1993, will fall from 37 this year to 34, 31, and then 26, 23 and 22.

Cyclically adjusted, our net borrowing is this year just 2.2 per cent of GDP, falling to 1.6, 1.6, 1.6 and then falling to 1.5 and 1.4.

Within these figures public investment which was just £5 billion in 1997 will continue to rise to £31 billion in 2007 then 32, 34 and 35 in 2010.

On average £40 million a year today per Parliamentary constituency rising to £55 million a year by 2010. Contrasted to just £10 million a year per constituency in the period 1979 to 1997.

In just five years, from now to 2010, Britain will see more investment than in the entire eighteen years from 1979 to 1997.

Our two fiscal rules enabling us to meet the country's priority to invest more not just in schools and hospitals but in transport, housing and, of course, sport and the Olympics.

I have, however, received representations that a third fiscal rule should be adopted: each and every year, irrespective of the needs of the economy and the case for investing in public services, restricting public spending growth to a lower rate than the growth of the economy in order to cut taxes.

On closer examination, what has been called sharing the proceeds of growth, would this year mean spending at least 12 billions lower by next year, at least 17 billions lower than plans. And I have concluded that this rule, however rebranded, is simply a new gloss on an old proposal advanced before previous budgets which would undermine our public services our infrastructure and our economy.

It is our commitment to investment for the long term that allows us not only to address global economic challenges but to combine prosperity with fairness to all – and within the fiscal figures we can do more to help families, the elderly and young people and to meet our obligations on security and defence.

Defending our country is the first duty of government.

And in response to the bombings in London in July and the terrorist threat, it is right to do all we can to support our police, armed forces and security and emergency services whose bravery we commend and upon whom we depend each and every day for our safety.

Since September 11th we have doubled the budget for national security.

Today we are making available an additional £135 million for security and counter-terrorism.

And for the armed forces for Iraq, Afghanistan and other international obligations an additional £580 million.

At the end of a year when we have won the doubling of aid to Africa and debt relief, just the start of what we must do in future years, the International Development Secretary, to expedite the critical negotiations on trade, is offering to treble Britain's aid for trade to £100 million. And it is unacceptable that the world is insufficiently prepared for natural disasters, so Britain will contribute £40 million to an expanded UN emergency fund and £50 million to a new IMF shocks facility.

Mr Speaker, the child tax credit is benefiting six million families with one and a half million poor children already lifted out of poverty.

But the mobility of our economy is now such that each year 200,000 men and women who move into new or better jobs see their family income rise by more than 10,000 pounds.

Some have suggested we should cut back the child tax credit. This I refuse to do because, with child benefit, the child credit is doing more to help families meet the costs of bringing up their children and helps more families out of poverty than any other single measure.

While a case has been made for fixed awards based on last year's incomes, to which we continue to listen, it would be better to have a system that flexibly responds to changes.

So while requiring earlier notification of changes in circumstances, the Paymaster General is making a detailed statement today that, from April next year, we allow annual income changes, not of £2,500, but of up to £25,000 - covering 95 per cent of all income rises during a year. And where recovery does take place during the year, we will adopt new rules on repayment to address potential hardship.

Our policy is opportunity for all matched by responsibility from all.

Today the Department of Education and the Treasury are publishing plans showing how parents who want to do the best by their children can be given the support they need, from child care tax credits and maternity pay, to support for parenting at Sure Start centres, and the increase in mentoring for children in care that we are announcing today.

What parents often seek is early help – the most effective measure and the best hope we have to keep children out of trouble.

Instead of the dozen agencies that often duplicate each others' efforts without reaching the troubled child, to inform decisions in our spending review, the Secretary for Education will pilot a new concept - one lead professional, based around the school, using funds brought together in one budget and with the authority to identify problems early and the freedom and capacity to intervene quickly and do what is right, before a child's future is blighted.

Mr Speaker

The oil shock of this year has led to calls for more efficient use of energy and support for alternative fuels.

I am enhancing the capital allowances for production of the most environmentally friendly biofuels including to help oil companies meet their agreed biofuel obligations.

Carbon capture and storage protects the environment from carbon emissions by containing them at source and transporting them to the North Sea where they make it easier to extract remaining oil from mature fields. I can announce a new partnership with the Norwegian Government. Together we will consider the right level of incentives to speed up the adoption of this new technology.

Because the UK can also become a world leader in clean coal, the Secretary for Industry is announcing today further support for clean coal and all carbon abatement technologies, as part of our wider energy review.

And because we need to encourage energy efficiency in small and medium sized firms, the Environment Secretary is announcing further funding for the Carbon Trust.

So that all import capacity for gas is put to use, Ofgem have announced today they will use their powers to intervene where necessary to ensure that importers either “use or lose” their capacity to import. And the Trade Secretary and I have today written to the European Commission supporting Ofgem’s call for an urgent investigation to make sure that this winter there are no blockages to the full use of the interconnector with Europe and thus no restriction on imports of gas from Europe.

Our economy has had to withstand an oil price rise from around $25 to a current price of around $55, which is also the close to the level of almost all future projections.

Returns in the North Sea are now nearly 40 per cent on capital, compared with ordinary returns on capital of 13 per cent.

With the tax on new development in the North Sea now lower than in the USA and the Gulf of Mexico, Norway, Italy and Australia, and in order to strike the right balance between producers and consumers, I will raise the supplementary North Sea charge from 10 per cent to 20 per cent, while giving new incentives to companies for exploration and development of the most difficult fields, by extending the exploration expenditure supplement to all ring-fenced activity.

I am also now able to freeze petrol and diesel and road fuel gases duties for this full financial year at an Exchequer cost for the full year of £600 million.

I am also able to set aside resources so that the winter fuel payment – the universal payment tax free to all pensioner household – will be £200 not just this year, but next year, the year after and every single year of this Parliament - and it will be £300 for the over eighties, paid every year before Christmas.

In addition to the winter payment, I want to ensure that for pensioner households energy costs are as low as possible while ensuring the most efficient and effective heating systems against the winter cold.

Insulation and central heating can reduce heating bills for the typical pensioner household by £300 a year.

The energy savings are so great that no pensioner household should be without insulation and no pensioner should be without help to install central heating.

And after many years it is time to complete the insulation and installation of central heating for their homes.

The Government's Warm Front programme has so far insulated 1 million homes.

But there are still half a million that have no central heating and 2 million without insulation.

Separate announcements will be made for Scotland, Wales and Northern Ireland.

By setting aside an additional £300 million over the next three years, the Government's Warm Front programme will not only be able to offer pensioner households on pension credit free installation of central heating, but we will also offer all other pensioner households without central heating £300 towards the costs of installing it.

And we can go further.

And I am grateful to the energy companies who are matching our offer by announcing this afternoon that they will extend their offer of insulation: free insulation for all pensioner households on pension credit, and with for all other pensioner households between £125 and £175 towards the costs of insulation.

Let me conclude with a set of measures in an area which is not fashionable today, but I believe vital for the long term future of our country, an area where we can only make progress if Government invests and works together with the voluntary and community organisations which are at the heart of every community.

Mr Speaker, a responsible society requires strict measures to combat vandalism and violence.

It also requires that society fulfils its responsibilities to encourage what is best in young people.

And we have to do far more where in the past too little has been done – investing in youth and community facilities that are modern, relevant and welcoming for teenagers up and down the country.

Today I can announce an agreement with the banks and building societies that unclaimed assets held in bank accounts will, once realised, be put to use to improve youth and community facilities.

And it is right for us as a Government to make a start now.

First, the Government is joining with seven of Britain's leading companies to launch the country's first national youth community service – with up to £100 million of initial finance, it will fund gap years volunteering in Britain and abroad for young people who could otherwise not afford this – and fund part time and full time community service in every constituency

Second, because we want the 2012 Olympics and beyond that any English bid for the 2018 World Cup to regenerate sport for young people in our country, the Culture Secretary and I are announcing today details of a National Sports Foundation, which, modelled on the Football Foundation's successful investment in football facilities, will invest new money in improving facilities and amenities and participation across all sports in every area of our country.

But as the youth Green Paper has said, more can be done not only to support wider youth services, but to put decisions about the programmes for young people in the hands of young people themselves.

So as a first step, we will provide finance for each local authority to set up a young people’s fund;

for amenities and activities run by young people;
decided by young people themselves;
on average half a million pounds for each local authority over the next two years to strengthen local communities.

Mr Speaker
Stability the foundation
More investment not less
Responsibility from all
Opportunity for all and not just the few
And I commend this Report to the House