

Budget 2006

**A strong and
strengthening
economy:**

**Investing in
Britain's future**

March 2006



HM TREASURY

Summary Leaflet

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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. Budget announcements include:

- **an updated economic forecast**, which shows that the UK economy is stable and growing, and that the Government is meeting its strict fiscal rules for sound public finances over the economic cycle;
- **support for families**, by increasing the child element of the Child Tax Credit at least in line with earnings to the end of this Parliament;
- **further payments into Child Trust Fund accounts at age 7** of £250 for all children, with £500 for children from lower-income families;
- **free national off-peak bus travel in England for every pensioner and disabled person from April 2008**;
- **an additional £585 million to increase direct payments to schools in England**;
- **funding to support the most talented British athletes** to prepare for the 2012 Olympics;
- **measures to raise productivity** including maximising the impact of science funding, and reducing the burden of regulation on business;
- **further reforms to modernise the tax system**, and a number of measures to **tackle tax fraud and avoidance**;
- **measures to tackle climate change** including an increase in line with inflation of the climate change levy from April 2007, and the introduction of a new zero rate of vehicle excise duty for the small number of cars with the very lowest carbon emissions and a new top band for the most polluting new cars; and
- **an increase in line with inflation of fuel duty rates** from 1 September 2006.

Maintaining a stable economy

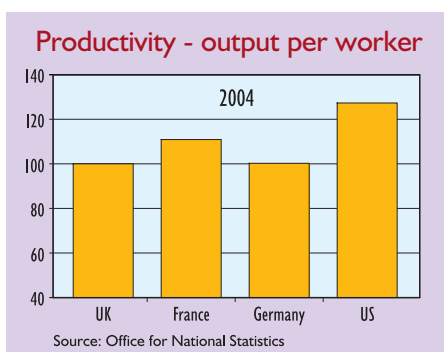
In 2005 the world economy was affected by the sustained rise in global oil prices. While many emerging markets continued to grow strongly, growth was slower in some advanced economies, including the major European countries to which the UK exports. The Government's economic reforms have helped the UK 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 2½ per cent in 2006, picking up to 2¾-3¼ 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.

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 close 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. Budget announcements include:

- **a package of measures to enhance the UK's position as a leading location for inward investment;**
- **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;



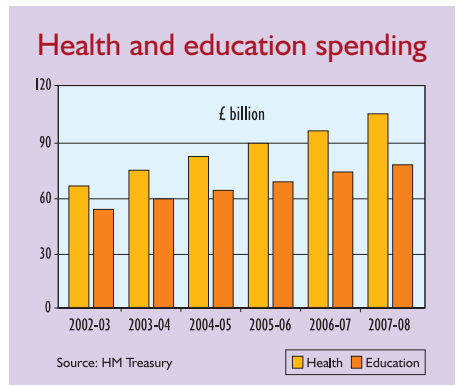
- **measures to improve the efficiency of the property investment market** through the introduction of Real Estate Investment Trusts; and
- **further plans to reduce the regulatory burden on business**, including new commitments to reduce the time that businesses spend filling in tax forms and dealing with tax audits and inspections.

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 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 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 release 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;
- **a further £100 million to bring forward recruitment of Police Community Support Officers** for every neighbourhood; and
- **that to meet the UK's commitments in Iraq and elsewhere in the fight against terrorism, £800 million will be set aside from within existing public spending plans.**



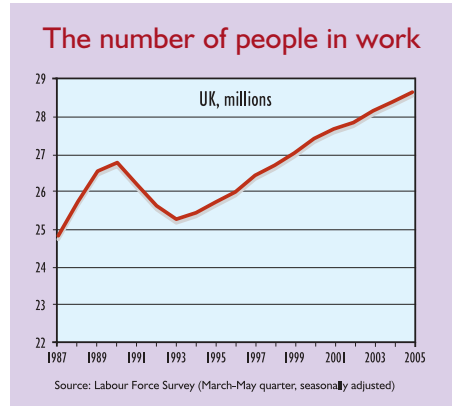
The Budget also sets out plans for the Government's second Comprehensive Spending Review, reporting in 2007. This will include a national debate on the challenges and priorities for the UK's public services over the coming decade.

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 646,000 young people into jobs, and helped to provide greater employment opportunity for people who find it hard to obtain jobs, such as lone parents and people with a health condition or disability. Employment has risen by over 2.3 million in that time and unemployment has fallen to 5.0 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 and is currently helping 2.2 million families. The adult rate of the Minimum Wage will rise to £5.35 from October 2006. The Government is now taking further steps to deliver higher employment across the country, by:



- **extending the support offered to help lone parents into employment;**
- **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.**

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 10 million children 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.

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 national bus travel in England for every pensioner and disabled person** from April 2008;
- **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;
- **further reforms to modernise the tax system**, and a number of measures to clamp down on **tax fraud and avoidance**; and
- **an increase in duties on tobacco, beer and wine in line with inflation, and freezes on the duty on spirits, sparkling wine and cider.**

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:

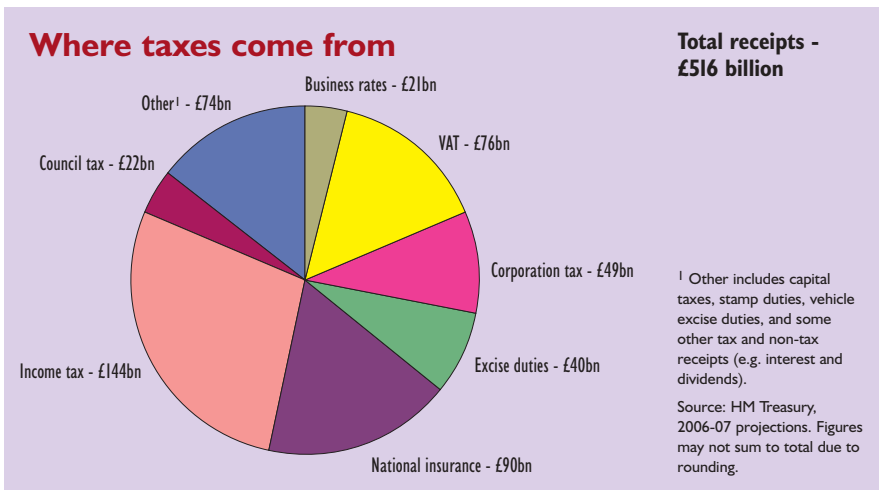
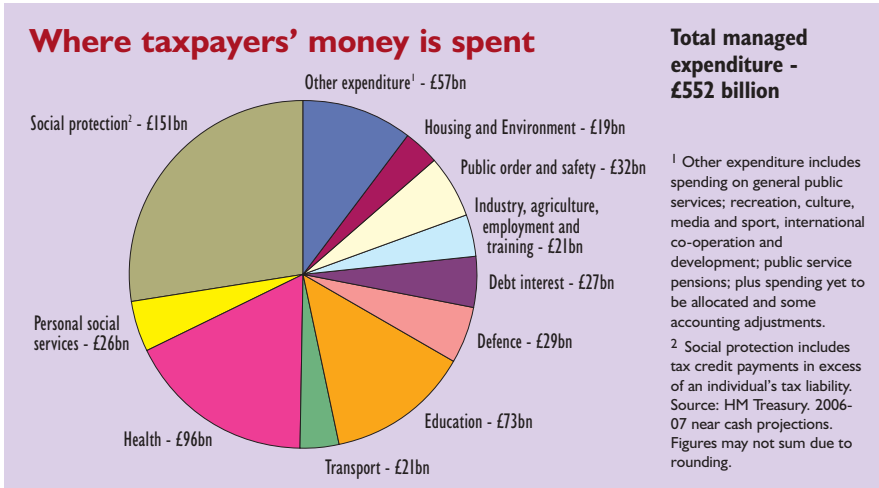
- **measures to improve household efficiency**, including subsidised insulation in over 250,000 homes and trialling the use of 'smart' gas and electricity meters;
- **measures to encourage energy efficiency in the business sector including an increase in line with inflation of the climate change levy, deferred to April 2007;**
- **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

- Compared with last year, a single earner couple with two children, with earnings up to the median for full time workers – £24,000 per year – will be at least £70 a year better off in real terms.
- As a result of personal tax and benefit measures introduced since 1997, by October 2006, families with children are, on average, £1,500 a year better off in real terms, while those in the poorest fifth of the population are, on average, £3,400 a year better off. A single earner family with two children, on average male earnings of £31,600, is £235 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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