

# Budget 2008

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## **Budget 2008 IN SCOTLAND**

The Government's economic objective is to build a strong economy and a fair society, where there is opportunity and security for all.

This Budget sets out the action the Government is taking to support the economy in the short term, to ensure the resilience of the past decade continues, combined with action to make further progress against its long-term goals of:

- maintaining macroeconomic stability, ensuring the fiscal rules are met and that inflation remains low;
- sustainable growth and prosperity, through reforms that promote enterprise and business growth, simplify the tax system, enhance flexibility and promote science, innovation and skills;
- ensuring fairness and opportunity for all, tackling child and pensioner poverty, providing opportunity for all children and young people, delivering security for all in retirement, and ensuring a modern and fair tax system where everyone pays their fair share of tax;
- creating stronger communities and effective public services, and improving long-term housing supply and affordability; and
- ensuring an environmentally sustainable world, with action to address the global challenge of climate change.

The Government's long-term goal is to maintain macroeconomic stability in order to achieve its objective of a fair society where there is security and opportunity for all.

The UK economy continued to perform strongly in 2007, growing 3 per cent on a year earlier, the fastest growth rate among the G7 economies. Employment reached a record high and claimant count unemployment fell to a 32 year low. The UK is the only G7 economy to have avoided any single



quarter of negative growth over the past decade. The flexibility and resilience of the UK economy provides a solid platform from which to face the global economic shocks from the continued disruption in global financial markets and the increase in energy and commodity prices. UK GDP growth is forecast to slow from 3 per cent in 2007 to 1¾ to 2¼ per cent in 2008, before picking up to 2¼ to 2¾ per cent in 2009 and 2½ to 3 per cent in 2010.

Despite the impact of financial market disruption on the public finances, the Budget 2008 projections show that the Government is meeting its strict fiscal rules:

- the current budget shows an average surplus as a percentage of GDP over the current economic cycle, which began in 1997-1998, ensuring the Government is meeting the golden rule. The current budget moves clearly into surplus from 2010-11 onwards; and
- public sector net debt is projected to remain low and stable over the forecast period, stabilising below the 40 per cent ceiling set in the sustainable investment rule.

Measures announced today which are particularly relevant to individuals and businesses in Scotland include:

- **an additional £26 million for the Scottish Executive as a result of spending increases announced in the Budget for Government Departments.** It will be for the Scottish Executive to decide how to allocate this increase.
- **Access to finance:** Budget 2008 introduces a package of measures to support small businesses access the finance and resources they need to start up and grow, responding to business needs in the short term:
  - A temporary increase of 20% in the amount of finance available through the Small Firms Loan Guarantee scheme, and relaxation of the restrictions on firm age to allow access to the scheme for a wider range of small firms;
  - The Government will work with the banks to explore mechanisms to ensure small firms are able to access the most appropriate forms of finance, including mezzanine products. It will also provide additional Enterprise Capital Funds of £30 million to support this type of provision;
  - A new capital fund primarily focused on businesses run by women;



- An increase in the Enterprise Investment Scheme's investor limit from £400,000 to £500,000 in any one tax year (subject to State aid approval), and a consultation on how best to simplify operation of the scheme; and
- An increase in the value of share options an individual can hold under the Enterprise Management Incentive scheme from £100,000 to £120,000.
- **Further steps to simplify the tax system:** The Government is today announcing the next stage in its rolling programme of tax simplification to further enhance UK productivity and competitiveness.
- **Science and Innovation:** The Science and Innovation White Paper will be published on 13 March and will outline significant progress in implementing the Sainsbury Review's recommendations. The White Paper will also set out DIUS' forward strategy for promoting innovation.
- **North Sea Fiscal Regime Reform:** the Government remains committed to ensuring that the North Sea fiscal regime promotes investment and production, whilst ensuring a fair return for the UK taxpayer. Following the publication of the consultation document *Securing a sustainable future* in December 2007 Government is announcing today a package of reforms to the North Sea fiscal regime to help encourage investment and maximise production. The Government will continue to engage with stakeholders on outstanding issues.
- **Incapacity Benefit Reform** From late 2008, an integrated and simplified Employment and Support Allowance (ESA) will replace the current system of incapacity benefits for new claimants and will have a clearer balance of rights and responsibilities. The introduction of ESA will be accompanied by a new Work Capability Assessment (WCA), which will apply to new claimants from October 2008. To ensure that the increased focus on a person's capability to work has an impact for current as well as future claimants, the Budget announces that all existing incapacity benefits claimants will be required to take the Work Capability Assessment from April 2010. The Government is also looking at the way it contracts with specialist providers to support existing long-term incapacity benefits claimants. The Government will explore using a new funding mechanism to reward private and voluntary sector specialist providers for investing in helping long-term incapacity benefits claimants to return to work. **This will replace the existing system for 301,680 incapacity benefit claimants in Scotland.**



- **Child Poverty:** The Government remains firmly committed to tackling child poverty and since 1997 has made considerable progress against its objectives. Budget sets out the next steps, including measures to make significant further progress towards the target of halving child poverty by 2010, which are expected to lift up to 250,000 children out of poverty. Budget announces:
  - an increase in the first child rate of Child Benefit to £20 a week from April 2009, reinforcing the Government's commitment to Child Benefit as the foundation of financial support for all families, **benefiting 600,000 families in Scotland;**
  - an increase in the child element of the Child Tax Credit by £50 a year above indexation from April 2009 to further help low to middle income families **benefiting 301,000 families who claim this benefit in Scotland;**
  - Child Benefit will be disregarded in calculating income for Housing and Council Tax Benefit from October 2009, improving work incentives for many of the lowest paid families and boosting their incomes. A working family with one child on the lowest incomes will gain up to £17 a week from this change, which will benefit low income working families in Scotland.
- **A national roll out of the Saving Gateway from 2010.** The Saving Gateway will be introduced nationally, with the first accounts available to savers in 2010. The Saving Gateway is a cash saving scheme for those on lower incomes. Two successful pilot schemes have confirmed the benefits of the Saving Gateway in promoting saving and financial inclusion. Individuals in receipt of the following benefits and tax credits will be entitled to open an account in the national scheme: Working Tax Credits; Child Tax Credits paid at the maximum rate; Income Support; Jobseeker's Allowance; Incapacity Benefit; Employment and Support Allowance and Severe Disablement Allowance. **Approximately 750,000 individuals in Scotland would be eligible for the scheme.**
- **Support for pensioners:** Building on the Government's substantial commitment to help pensioners, Budget 2008 announces an additional one-off payment of £100 to households with someone aged 80 or over and £50 to households with someone aged 60 or over to be paid alongside the Winter Fuel Payment in 2008-09. **This will benefit around 750,000 households in Scotland.**
- **Alcohol duty:** As incomes have risen, alcohol has become increasingly more affordable. A 6 per cent increase in all alcohol duty



rates will come into effect on 17 March 2008. This will add 4 pence to the price of a pint of beer, 55 pence to the price of a bottle of spirits and 14 pence to the price of a bottle of wine. In order to ensure that alcohol duties keep pace with rising incomes alcohol duty rates will increase by 2 per cent above the rate of inflation in future years.

- **Promoting giving through Gift Aid:** Budget 2008 announces a comprehensive package of measures in response to the Gift Aid consultation, including major reform to the auditing process; a programme for bringing smaller charities into Gift Aid; redesign of guidance; and the launch of targeted marketing tools. This Budget also announces that although the basic rate of tax will be 20%, Gift Aid will be paid at a transitional rate of 22% from 2008-09 to 2010-11 - providing charities with additional Gift Aid worth around £300 million over three years.
- **An environmentally sustainable world:** Budget 2008 announces a number of measures to improve the environment including:
  - The Climate Change Bill, which will commit the Government to fixed and binding 5-year carbon budgets, based on the advice of the independent Committee on Climate Change;
  - Budget 2008 announces the domestic Environmental Transformation Fund allocates over £400 million, to ensure that technologies that are in the later stage of development can be brought to market and demonstrated;
  - Budget 2008 announces reform of the Vehicle Excise Duty (VED) structure. From 2009, VED will be restructured so that people benefit financially by choosing the greenest cars. From 2010, there will be a new higher first year rate to influence purchasing choices;
  - The King Review of low-carbon cars publishes its final report alongside this Budget and the Government welcomes this report. The Review makes recommendations for action to reduce emissions from transport in four key areas: reducing vehicle emissions; cleaner fuels; consumer behaviour; and research and development.
- **Fuel duty rates:** the Budget announces that the planned fuel duty increase of 2 pence per litre in April 2008 will now take place on 1 October 2008.



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## **NOTES FOR EDITORS**

Further details of 2007 Pre-Budget Report announcements can be found on the HM Treasury website: [www.hm-treasury.gov.uk](http://www.hm-treasury.gov.uk).

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### **GOVERNMENT DEPARTMENT INTERNET SITES**

Further information and all published documents relating to 2007 Pre-Budget Report may be found on the Internet at the following addresses:

HM Treasury [www.hm-treasury.gov.uk](http://www.hm-treasury.gov.uk)  
HM Revenue & Customs [www.hmrc.gov.uk](http://www.hmrc.gov.uk)

