



BUDGET 2008

Wednesday 12th March

Overview

Today, Chancellor Alistair Darling delivered his first Budget under the watchful eye of his predecessor Gordon Brown. His repeated use of the word “stability” in the opening lines of his speech left no doubt as to his message, as he sought to reassure the Government’s credentials as solid managers of the economy. This was a Budget “for now and the future” he said, stating that Britain was in better shape than other leading economies to handle current economic uncertainty.

As expected, the highest issues on the agenda were climate change and child poverty. But before the Chancellor could get to these, there was the unpleasant duty of announcing a lower growth prediction for 2008 of 1.75% - 2.25%, down 0.5%. However, Mr Darling stressed that this figure remained the highest of all the major economic global powers and he will be writing to the Governor of the Bank of England to ensure a 2% target on inflation is maintained.

Having dealt with the bad news, Darling sought to raise the mood of the Labour benches with a string of announcements confirming increases in public spending on public services (up 2.2% over the next 3 years), science and the armed forces. The 2p increase in fuel duty will be postponed until October this year due to the high level of inflation of fuel prices, and the winter fuel allowance will rise for both the over 60s and over 80s. The Government will hope these measures will provide some cheer in the face of economic uncertainty, and the predicted increase in duty on cigarettes and alcohol.

But it was on child poverty where the Chancellor spent the most time. With the ambitious 1997 target of halving child poverty by 2010 still in place, Mr Darling announced an increase of child benefit to £20 a week. In addition, a further £125m will be spent over the next three years to help families, and rules for housing and council tax benefit will change, meaning families on benefit are better off in work.

On his second policy priority, a raft of measures were announced to target climate change. A £26m package was announced to help make homes more environmentally friendly whilst all non-domestic buildings will become zero-carbon from 2019. The Government will also introduce legislation next year to charge people using plastic bags if the supermarkets fail to do so themselves.

As expected, the Chancellor announced a “showroom tax” of £950 on the least environmentally friendly cars, whilst low polluting new cars will pay no road tax in the first year (while high polluters will pay more). The Chancellor said he would ask the European Commission to increase targets for car fuel emissions, whilst further consideration was being given to raising the UK target for emission cuts to 80% by 2050. While these principles will be welcomed by environmental groups, there would have been hope for more concrete commitments from the Government on these emission targets.

In his response, Conservative leader **David Cameron** challenged the Government’s record on the economy, undermining the Chancellor’s focus on security. In an attack on their reliability to manage the economy, he refuted the notion that Britain was well placed to deal with upcoming global economic downturn, and referenced the Northern Rock episode and “the election that wasn’t” as proof of their uncertainty. In reference to the announced tax increases, he said “the cost of living is going up, and Labour’s making it worse”. He accused the Chancellor of delivering a “dire list of reviews and re-announcements”, with precious few new initiatives.

For the Liberal Democrats, **Nick Clegg** played on the Prime Minister’s close links to the Treasury, and called the Chancellor’s speech a piece of “political ventriloquism”. He stated that the Budget was “a green cop-out”, with environmental taxes merely “taking from the kitty of lowest earners”, and accused the Government of over-playing any good news.

Priority Issues and Policy Changes

ENVIRONMENT

- Consideration was being given to raising targets for emissions cuts to 80% by 2050.
- Laws introduced by 2009 to charge for using plastic bags unless supermarkets do so.
- £26m package to help make homes greener.
- New non-domestic buildings to become zero-carbon from 2019.
- Asking the European Commission for tougher targets on car fuel emissions.
- From 2009, a major reform of the vehicle excise duty. For new cars from 2010, the lowest polluting cars will pay no road tax in the first year. Higher polluting cars will pay more.
- For environmental reasons, fuel duty will rise by 0.5p per litre in real terms in 2010. The 2p increase in fuel duty will be postponed until October this year.
- Funding will be set aside for testing proposals for road pricing.

CIGARETTES AND ALCOHOL

- Cigarettes up 11p a packet.
- Beer up by 4p a pint, wine 14p a bottle, spirits 55p a bottle and cider 3p a litre by Sunday.
- Duties on alcohol will go up by 2% above inflation for next four years.

HOUSING

- From April, key workers, such as teachers and nurses, will be able to borrow money from shared equity schemes.
- Stamp duty on shared ownership homes will not be required until people own 80% of their home.
- More people should have the chance to have a long-term fixed mortgage, which a report shows can reduce the risks for first-time buyers and can keep them on the housing ladder.
- Sites for 70,000 more houses have been identified.

PUBLIC SPENDING

- Public spending in the coming three years will grow by 2.2% a year.

Defence

- An extra £2bn will be spent on troops in the frontline
- This will include £900m on military equipment.

Education

- There will be £200m extra for schools to raise GCSE results.
- There will be a £30m fund to improve science in schools.
- £60m over three years will be made available for equipping people for the workplace through training and apprenticeships.

AIRPORTS

- New measures at Heathrow and other airports, using biometric technology, to speed up the time it takes to get through security checks.

BENEFITS

- From April 2010, all long term recipients of incapacity benefit will attend work capacity programmes.
- Child poverty must be eradicated in Britain. From April, 2009 child benefit will be increased to £20 a week.
- Child tax credit for families on low and middle income will increase by £50 a year above inflation.
- From October 2009, rules for housing and council tax benefit will mean families on benefit are better off in work.

ENERGY

- Five million customers on pre-paid meters should get a "better deal". Energy companies should spend £150m on social tariffs.
- Winter fuel allowance will go up from £200 to £250 for the over 60s and from £300 to £400 for the over 80s.

FISCAL, FINANCE AND BUSINESS

- The Chancellor said he is writing to the Governor of the Bank of England to keep a 2% target on inflation.
- Borrowing next year will rise to £43bn, some 2.9% of national income. It will fall to 1.3% by 2012/13.
- By 2011, investment will have increased by 500%, trebling as a share of national income.
- The Government will launch the "savings gateway" nationally with the first accounts available by 2010.
- Cash ISA limit confirmed as £3,600 a year from April.
- Corporation tax will fall from 38% to 28% by April this year.
- Simpler taxes for small companies.
- Funds available through the small firms loans guarantee will increase by 60% in the next year.
- There will be a capital fund of £12.5m to encourage more women entrepreneurs.
- From this April, key workers such as teachers and nurses, will be able to borrow money from shared equity schemes.
- Stamp duty on shared ownership homes will not be required until people own 80% of their home.
- More people should have the chance to have a long term fixed mortgage. A report showed that long term fixed rate mortgages can reduce the risks for first time buyers and can keep them on the housing ladder.

NON-DOMICILED FAMILIES

- Non-domiciled families should after seven years pay a "reasonable charge".

SCIENCE AND INNOVATION

- Tomorrow, the Government will publish the Science and Innovation White Paper, including proposals for a Further Education Innovation Fund to help support businesses to develop their innovative potential.