

Main Messages

- There appear to be only minimal Barnett Formula consequentials (around £26m) as a result of changes in English spending levels on child poverty. This is expected to be assigned to Higher and Further Education
- The UK growth target which the Scottish Government is committed to matching by 2011 remains unchanged at 2.75%.
- Estimated North Sea Revenues are up by £0.9bn in 2008-09 and the long term oil price is \$83.8 a barrel

BUDGET 2008

Main points of interest for Scotland

Budget Consequentials

There are minimal funding consequentials (around £26m) over the full budget period (details below). This will be a disappointment to the Higher and Further education sector as they are due first call on any such additional funding. (This decision was recorded in the minutes of the last Council of Economic Advisers (CoEA) meeting, “*a decision has been made by Cabinet to give higher and further education first call on additional resources from Barnett consequentials if and when they become available*”.)

The consequentials arise from the increased DCSF spending for DCSF child poverty measures (although as stated above we understand Higher and Further Education have first call on these monies). For Scotland these amount to £26 million across three years, 2008-09 to 2010-11 and they are split:

- Resource DEL £0.7 million/ £2.1 million/ £4.2 million for 2008-09/2009-10/2010-11 – consequentials of increased spending on Department for Children, Schools & Families
- Resource DEL £4.9 million/ £0.9 million/ £0.3 million – consequentials for CSR modernisation funding
- Capital DEL £0.1 million/ £0 million/ £0 million – consequentials for CSR modernisation funding
- Plus, Resource DEL of £8.1 million and capital DEL of £5.0 million added to 2007/08 EYF stock.

Growth Target

The UK governments GDP growth target for 2011 and beyond is 2.75%. This is the growth target that the Scottish government has set itself to meet by that date.

Since devolution Scotland has grown at or above this rate twice, in 2000 (2.77%) and in 2006 (2.75%).

(Note: UK GDP growth target refers to GDP including Extra Regio (largely North Sea activities, whereas the Scottish target is excluding Extra Regio. However, it can be presumed that projections for both will be very similar for 2011-12.)

North Sea Revenues

Due to higher than expected oil prices, North Sea related revenues have risen by £0.2/0.9bn over the period 2007-08 to 2008-09, and now stand at £9/7.7/9.9bn, 2006-07 to 2008-09, in total.

These figures are important in relation to the revised Government Expenditure and Revenues in Scotland (GERS), due to be published in June 2008 by Scottish Government officials. Although GERS will only cover up to financial year 2006-07, North Sea revenue figures for later years will form part of the continuing debate over forms of fiscal federalism and or the position of Scotland's public finances under Fiscal Autonomy or Independence.

The long term assumed oil price used in the Budget (taken from NAO assumptions based on an average of independent forecasters of oil prices) is \$83.8 a barrel. Some of the more recent independent forecasts of oil prices have been higher than this. For example, last week Goldman Sachs raised its forecast for Brent Crude to \$110 a barrel in 2010, up from \$80 a barrel. The reliance on high oil prices to generate substantial oil and gas revenues is further reinforced by the Government's assumption that production levels are forecast to continue to fall at 5% per annum.

Aviation Duty

As already announced, a new "per plane" aviation duty will be introduced next year, replacing the existing air-passenger duty. This decision was welcomed last October by low cost airlines like Easyjet, as it is seen to reflect actual pollution more closely and so fuller short haul flights should gain at the expense of less full long haul flights. The impact of this on Scotland will probably be to raise the cost of flying on those routes seen as essential but which are not always well filled unless compensatory measures are taken.

Alcohol and Tobacco Duty

As expected, alcohol duty increased. Whisky rose by 55p a bottle, beer rose by 4p a pint, wine by 14p a bottle, and cider by 3p per litre. All increases on alcohol were at 6% above the rate of inflation for this year (2% above inflation thereafter), although spirits were not singled out for special treatment.

Cigarettes went up by 11p per packet (and cigars by 4p a packet of 5).

Main UK-wide Budget announcements:

- GDP growth in 2008 revised down to 1.75 – 2.25% (down ¼%)
- GDP growth in 2009 revised down to 2.25 – 2.75% (down ¼%)
- GDP growth in 2010 remains unchanged at 2.5 – 3%
- UK debt levels have not yet taken on board EITHER the Northern Rock consequential, OR any changes in how past PFI deals are treated. However, both are expected to have an impact eventually.
- As a result UK Public Sector debt remains below the “sustainable investment rule” level of 40% of GDP, rising from 37.1% of GDP (or £36.4bn) this year to 38.5% in 2008-09, 39.4% (2009-10) and 39.8% (2010-11) before falling back to 39.3% by 2012-13.
- The PSNB rises from 2.6% of GDP this financial year to 2.9% next year, before falling back to 2.5% in 2009-10 (with further expected falls up to 1.3% by 2012-13), thus maintaining a cyclically-adjusted surplus on the current budget, as required by the ‘golden rule’.
- Income Tax to fall by 2p in the basic rate (to 20%) from April as previously announced in last year’s Budget. It was also confirmed that so-called non-doms will face a £30,000 charge from April.
- National Insurance: no changes announced
- Increase in Child Benefit to £20 per week from April 2009, and other help so that a working family with one child on the lowest incomes will gain up to £17 a week extra help.
- Increases in ISA allowances to encourage more saving confirmed (rising to £7,200 in April 2008)
- Support for pensioners sees an increase in the basic State Pension in line with the Retail price Index or 2.5% (whichever is higher) with a £124 minimum per week from April 2008; a one-off increase in Winter Fuel payments in 2008-09 of £50 to over-60s households and £100 to over-80s households.
- Capital Gains Tax remains as previously announced, and Corporation Tax to fall to 28% in April (again as previously announced).
- Petrol Duty increase of 2p per litre has been postponed until October 2008 (with a further increase above the rate of inflation of ½p in 2010).

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