FUNDING REAL CHANGE

Labour

IT'S TIME FOR REAL CHANGE

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Foreword

In 2017 I became the first Shadow Chancellor to publish a detailed document setting out costings and funding sources for the policies set out in a political party's election manifesto.

I am committed to ensuring, not just in this election campaign but also in government, that Labour adheres to the fullest openness and transparency about our economic policies and investment programme. My hope is that I can set a standard which other parties will follow.

The background to this election's document is nearly a decade of Conservative and Liberal Democrat cuts to our public services and their mismanagement of our economy and the Brexit process.

Every week I have been convening meetings around the country to discuss the issues facing our communities and the policies and investment we need to end austerity: the policies we need to begin rebuilding our public services and our economy.

Labour's programme will transform our country and people's lives: I have set out in this document how that transformative programme will be funded. I look forward, with your support, to implementing this policy agenda in government.

John McDonnell
Shadow Chancellor of the Exchequer
November 2019

Additional resource spending (PSCE in RDEL and AME)

All new spending is in addition to that announced in all previous fiscal events, up to and including Spending Round 2019

	2023/24 £ (bn)
Education	
Early Years Education	
Expand free tuition through supply-side funding model, increased funding rate, reopen SureStart centres, fund for adapting foster homes for disabled children	5.6
Schools	
Raise three-year spending increase from 2019-20 to £25bn, introduce an arts pupil premium, extend free school meals to all primary pupils and other additional funding	5.5
Skills and Lifelong Learning	
Restore Education Maintenance Allowance, equalise 16-19 funding with key Stage 4, Union Learning Fund	1.4
Lifelong Learning Commission recommendations: free Key Stage 3 and Key Stage 4+ with maintenance grants, restore ESOL funding	3.3
Higher Education	
Abolish tuition fees and restore maintenance grants (RDEL) for full-time and part-time students	13.6
Savings on existing tuition fee system in CDEL:	*-6.4*
Net cost:	*7.2*
National Youth Service	1.1
Health & Social Care	
Health	
Raise average annual funding growth to 4.3% in real terms, including funding for public health and Health Education England	5.5
Expansion of healthcare free at the point of use: free dentistry, prescriptions and car parking in NHS England	1.4
Social Care	
Introduce free personal care for over 65s and fill existing projected funding gap	10.8
Work & Pensions	
Working age social security	
Reforms to Universal Credit pending its replacement, scrap the bedroom tax and reforms to Bereavement Support Payments, raise Carers Allowance to Jobseeker's Allowance, extend maternity and paternity rights and pay	8.4
Pensions	
Restore pension credit and housing benefit eligibility for mixed-age couples, uprate state pension of British pensioners overseas	0.6
Culture, Media and Sport	
Free TV licences for over 75s, British Broadband running costs	2.6
Local Government excluding adult social care	
Additional funding through Revenue Support Grant	5.0
including additional Local Government funding for homelessness, National Youth Service, SureStart, Public Health grant and adult social care but not including additional funding for public sector pay:	*20.0*
Funding to tackle homelessness	1.1
Other departments	
Peace Fund, recruiting 5,000 additional firefighters, vehicle scrappage scheme, Criminal Justice Innovation fund, restoring legal aid funded Early Legal Help and other Ministry of Justice reforms	1.4
Other	
Public sector pay catch-up	5.3
Barnett consequentials: Scotland	5.0
Barnett consequentials: Wales	3.4
Barnett consequentials: Northern Ireland	1.9
Total	**82.9**

Additional revenue raising measures

	2023/24 £ (bn)
Income Tax: Additional Rate payable from £80,000 and new Super-rich Rate payable from £125,000	
Mechanical yield:	*11.4*
Behavioural response and deduction for devolved income tax in Scotland:	*-6.0*
Post-behavioural estimated yield	5.4
Corporate taxation	
Gradually reverse cuts to corporation tax to reach 21% (Small Profits Rate) and 26% (main rate)	23.7
Unitary taxation of multinationals	6.3
Taxing income from wealth equitably and efficiently	
Tax capital gains at income tax rates, including behavioural response:	*9.0*
Tax dividends at income tax rates, including behavioural response:	*9.0*
Additional reduction for uncertainty:	*-4.0*
Post-behavioural estimated yield reduced further for uncertainty	14.0
Financial Transactions Tax	
Extend stamp duty reserve duty, including behavioural change	8.8
Tackling tax avoidance and evasion	
Fair Tax Programme	6.2
Tax reliefs and expenditures	
Efficiency review of corporate tax reliefs	4.3
Reform of R&D funding	4.0
Other	
Reverse cuts to inheritance tax and Bank Levy, impose VAT on private school fees, scrap Married Persons Allowance, introduce a second homes tax	5.2
Additional tax revenue from fiscal multiplier	5.0
Total	**82.9**

Forecast current budget surplus in 2023/24 (March 2019, OBR)	**40.3**
Estimated forecast current budget surplus in 2023/24 (November 2019, IFS)	**6.0**
Estimated headroom against Fiscal Credibility Rule borrowing target	**6.0**

Notes
(1) All figures nominal in 2023-24 prices
(2) Excludes elements of ringfenced spending eg. expansion of VED hypothecation ring-fence in Transport, Climate Transition Fund, Inclusive Ownership Fund 'capped' dividends, which have no net fiscal effect for the Exchequer
(3) Also excludes one-off spending commitments which do not have an RDEL consequence in 2023-24 eg. scrappage scheme, compensation for nuclear test victims

1. Funding Real Change

Public spending is at the heart of a healthy society. Labour's commitment to a supportive welfare state of universal services and social security requires a more progressive tax system than we have now.

Our public sector has been torn to shreds by ten years of Conservative and Liberal Democrat government: the priority of the Labour government will be to undo as much of that damage as possible as quickly as possible.

But ending austerity is only the start. As our manifesto makes clear, we believe there are things that are too important to be left to the market: our health, dignity in old age, education and training and right to a healthy environment.

In order to deliver those key rights free at the point of use, we will create a fairer tax system in which the wealthy pay their way.

Firstly and fundamentally that means not raising the rates of income tax, National Insurance and Value Added Tax paid by the lowest paid 95%.

Our tax policy puts the responsibility for funding the fairer and healthier public realm we all need on the shoulders of those who can afford it: the super rich, companies who have benefited from tax cuts since 2010, the City, multinationals who hide their profits in tax havens, and those who have benefited from the forest of tax reliefs that have sprouted up with barely any scrutiny. Our day-to-day spending commitments are listed in this document alongside the tax measures we will introduce to fund them.

This document lays out estimates for additional tax income and additional current spending in the final year of a Labour government's first term. As such it comprises an aim for current budget balance in 2023-24 in line with our Fiscal Credibility Rule: capital spending (including the National Transformation Fund) is therefore not included.[1] It can only be an estimate but this will form the basis of the final year of the forecast period's resource spending and tax measures in Labour's first Budget. If something does not appear here it is likely to be capital expenditure, part of a separate ringfenced spend (see notes (2) and (3) on p5) or not relevant to 2023-24.

The National Transformation Fund is Labour's programme of capital expenditure to tackle the climate emergency and urgent need for investment in repairing the physical infrastructure of the UK. It comprises £250bn over ten years for our Green Transformation Fund and £150bn over five years for our Social Transformation Fund. Taking companies into public ownership is fiscally neutral by international accounting standards when bonds are exchanged for shares (as in previous nationalisations): for British Broadband, which will be provided free, the ongoing costs are included from 'Grey Book' expenditure.

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[1] The 32 hour average full-time working week is also not included because it is a target for year ten of a Labour Government.

A number of assumptions are necessary and are laid out in this document. Most important, the Office for Budget Responsibility figures which are our starting point assume there is no Hard Brexit: something Labour has ruled out but will impact on other parties' forecasts.

Fiscal Credibility Rule

Not all of our commitments need to be funded from immediate taxation. We will need to borrow to invest in long-term productive projects that will both save our planet and stand our public sector in good stead financially for decades to come. That will be the job of our National Transformation Fund.

Unlike the current government's dishonest and misleading approach, which has led to billions of borrowing suddenly being put onto the forecasts by the Office for National Statistics,[2] we will be completely transparent about our rules and our intentions.

So in order to give some guidance for the overall path of fiscal policy during the first term of a Labour Government, we commit to the following Fiscal Credibility Rule:

- To eliminate the current budget deficit by the end of the rolling five-year forecast period of the Office for Budget Responsibility
- To improve the strength of the Government's balance sheet (Public Sector Net Worth) across the course of a Parliament
- To keep interest repayments below 10% of tax revenue

Investment spending raises the productive capacity of the economy as well as providing a boost to demand. Labour believes that borrowing for investment is necessary for a healthy public sector and a healthy economy as a whole, which is why we adopted a current budget target rule in 2016.

To ensure that investment and current spending together are achieving the goal of a strong fiscal position for the Government, the second part of our fiscal rule mandates us to improve the overall balance sheet position of the Government (assets minus liabilities) by the end of the Parliament. So when we invest in taking profitable utilities into democratic public ownership, the public balance sheet will record an increase in debt but an equal or greater increase in public sector assets.

There are times when a deficit target is unwise from both a social and economic point of view. This is most likely to occur in a recession and when monetary policy alone is unable to sufficiently support demand. Therefore we will suspend our Fiscal Credibility Rule when either

(a) The Monetary Policy Committee of the Bank of England advise us that the normal operation of monetary policy is not able to sufficiently stabilise the economy due to the presence of a lower bound, or
(b) Unconventional monetary policy operations – defined as anything other than interest rate adjustment – are expanded by the Bank of England.

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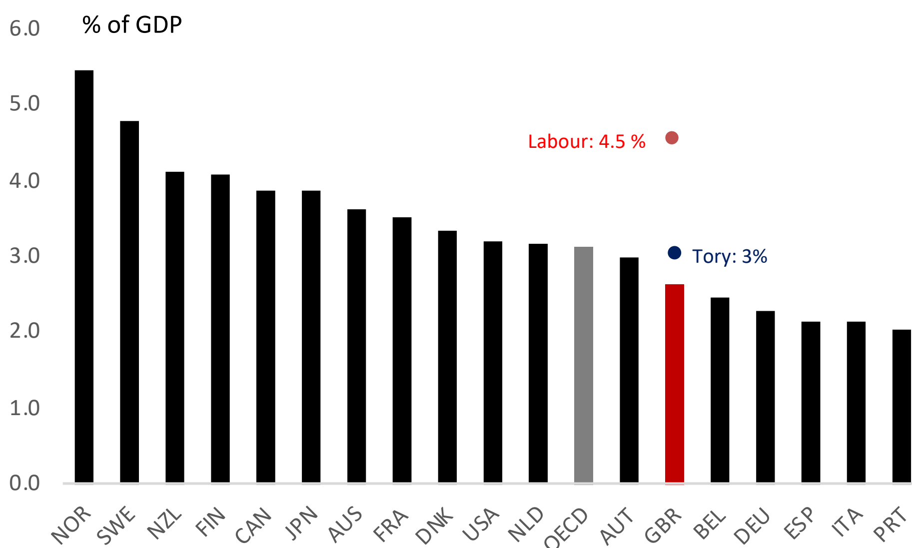
[2] See, for example, 'ONS student loans change adds £12bn to deficit' (Public Finance, 17 December 2018)

In this case, the Chancellor will come to the House of Commons to notify Parliament that the fiscal targets are not in operation and to make a statement about the Government's fiscal response.

The public investment multiplier

The estimates on p4-5 taken together with the forecasts imply a current budget balance in 2023-24 and £55bn of borrowing for National Transformation Fund CDEL investment (averaged).[3] Based on official forecasts that would be associated with an investment-led fiscal stimulus of over 2% of GDP. Public investment would still only be about 4.5% of GDP, around the same as Sweden and Norway.

Chart 1: UK public investment compared to international peers



Note: all black bars are taken from OECD (Government at a Glance 2019)

In studies by both the International Monetary Fund (IMF)[4] and Organisation for Economic Co-operation and Development (OECD)[5], public investment has a positive impact on GDP. They argue that, when the public capital stock is low and when interest rates are low (as is the case in the UK), it could 'pay for itself', by increasing the size of the economy more than the debt burden.[6] Olivier Blanchard, the IMF's former chief economist, highlighted[7] in February that the growth-interest differential in the UK is at about 2 percent. He concludes, with some caveats, that the

[3] Depending on timing there may be some further capital expenditure on nationalisations but we would hope HM Treasury's Public Ownership Unit will have completed their acquisition before then and have not included a fiscal multiplier effect from them.
[4] IMF, 'World Economic Outlook' October 2014, Chapter 3
[5] OECD, 'Can an increase in public investment sustainably lift economic growth?' November 2016
[6] Even under conservative multiplier estimates of 0.4, a 2.5% investment stimulus could lower medium-term debt (as share of GDP) between 0.8 and 7 percentage points.
[7] ' Olivier Blanchard, 'Public Debt: Fiscal and Welfare Costs in a Time of Low Interest Rates', February 2019

UK and some other advanced economy governments are able to borrow and invest more while at same time being fiscally sustainable.

Some may argue, contrary to the IMF and OECD's empirical findings, that additional public sector investment will have no positive effect on economic activity. An assumption of no change in GDP would imply a multiplier of zero. This would rely on two assumptions.[8]

Firstly, that the demand side effect of fiscal expansion is zero in the final year of the forecast period, presumably due to suddenly tight financial conditions or other effects which have crowded out the positive stimulus by the fifth year. As Blanchard argues, there are various reasons to assume that this will not be the case under current macro-financial conditions.

For context, the Bank of England's Monetary Policy Committee minutes from September 2019 say in relation to the Spending Round 2019 announcements of RDEL spending that "The Government has announced a significant increase in departmental spending for 2020-21, which could raise GDP by around 0.4% over the MPC's [three-year] forecast period, all else equal." This unfunded increase in question was less than half the size of the expansion proposed here and was for RDEL spending which is generally assumed to have a smaller multiplier than capital investment.

Secondly, an assumption of zero impact on GDP assumes no effect of the supply capacity of the economy. This would be an equally stark assumption five years into a large-scale programme of public investment. UK post-crisis productivity growth has been poor compared to other advanced economies: recently business investment has been weak and more public investment should contribute to a much-needed increase in overall productivity growth and thus the supply side.

The supply-side effects of government spending are generally believed to have a more persistent effect, leading to more persistent multipliers. Recently 2019 the National Institute for Economic and Social Research modelled a stylised version of Labour's earlier economic programme[9] (much smaller than our investment announcements in this election) and estimated that long-run GDP impacts would be 0.4 percentage points higher after ten years, due to productivity gains.

The OECD paper estimated that an increase in public investment of 0.5% of GDP leads to output gains of 0.4-0.6% and that longer term, sustained investment stimulus of 0.5% of GDP gives an average long-term output gain of 0.5 to 2.5%.[10] They stress that the effect in the UK could be greater than in other countries due to its low public capital stock.

An increase of just 0.4% after five years, as modelled by NIESR for a smaller expansion but over a longer period, would see GDP larger by around £10bn with – based on the approximate existing tax/GDP ratio – additional tax revenues of over £4bn. Under the OECD's lowest multiplier

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[8] Theoretically it could also imply demand and supply effects of equal magnitude but opposite signs, cancelling each other out.

[9] National Institute Economic Review No. 249 August 2019

[10] The 2.5% estimate assumes an 'average rate of return': p20 suggests a 'high rate of return' could lead to 3.5%

assumption, a stimulus of 2% as proposed by Labour would increase GDP by 1% and closer to £10bn of additional revenues.

In order to err on the side of caution we have limited ourselves to the assumption of just £5bn in additional tax revenues, though the actual effect is likely to be significantly larger, including in the case of a larger multiplier.

Baseline and assumptions

Our starting point is the current Government spending baseline for the next five years (in practical terms four, because the official forecasts only go up to 2023-24): all our costings are estimated in relation to how much they cost or raise in relation to this. The cancellation of the Budget means that the most recent official projections we have are from March 2019. These ignore, amongst other things, the reclassification of student loans by the Office for National Statistics and the additional spending announced at Spending Round 2019.

As a result we have also included the independent forecast produced by the Institute for Fiscal Studies on 7 November 2019 adjusted for the information that has come in since March.

This means all the spending commitments in this document are on top of those assumed in the March OBR forecasts or announced by the Government since, which means making the assumption that, except where they are set already, departmental budgets are forecast to be flat in real terms.

It is important to note that, as the vast majority of Labour's manifesto commitments do not relate to household taxes or the benefits system, a tax-benefit analysis cannot accurately represent the distributional effect of our manifesto. Labour's approach to public spending is to enhance and extend universalism where possible, accompanied by structural reforms including a £10 per hour Real Living Wage, large-scale house-building programme and rent controls, and public ownership of key industries that will (amongst other things) reduce the cost of living. Analysis by IPPR estimated that a tax-benefit analysis of Labour's 2017 election manifesto included just 8% of our spending commitments and 16% of tax rises.[11]

All assumptions on future inflation, earnings etc are taken from the most recent Office for Budget Responsibility forecasts, unless otherwise specified or more recent data are available. Consequentials have been calculated for the devolved administrations according to the Barnett formula and all current agreements including the funding floor for Wales.

[11] IPPR, 'The perils of distributional analysis: Was Labour's manifesto really regressive?' (2017)

2. Education

Early years

Early Years Education and Childcare

Our estimates for the roll-out of a supply-side model of childcare, including expanding free provision, introducing a subsidy for additional hours and moving to a fully-qualified, graduate-led workforce were based on modelling research carried out by Coram Family and Childcare commissioned by Unison.

Hourly funding rates are calculated on the basis of moving towards a fully qualified and graduate led workforce over a seven year period, with an immediate uplift in the funding rate for 3-4 year olds. A phased rollout is envisaged, with the new system assuming take-up of 80% for two year olds, 90% for three year olds and 45% of four year olds (90% with half attending school). 1,140 hours free hours are assumed to be used by each child with an additional 60 at a subsidised rate. Hourly rates have been adjusted to factor in 10% pension contributions for staff.

The new system is contrasted with Government spend on childcare from 2017, based on Figure 2 of 'Creating an Anti-poverty Childcare System' (Joseph Rowntree Foundation with Family and Childcare Trust) adjusted for inflation and increase in the 0-14 population (Office for National Statistics.

Sure Start

The IFS' 'Annual report on education spending in England (2019)' Table 2.7 estimates the reduction in spending on SureStart over a decade at £974m. Adjusted for inflation.

Early Years: adaptation for foster parents of children with disabilities

As it stands, individual local authorities are responsible for deciding whether to fund the costs of adapting foster or adoptive parents' homes for disabled looked-after children. The GMB found in a large-scale survey of foster parents that councils were increasingly refusing to fund this, which was in turn a significant factor in families leaving the fostering system, creating a shortage. A small fund will be available to cover the cost of these adaptions, alongside a clear national standard.

The Council for Disabled Children calculated there were 860 disabled Looked After Children nationally in 2015 based on data release by the DfE in response to a Freedom of Information request. This is likely to have risen in line with the overall increase in looked-after children since, and there will be other children in care with disabilities but whose disability is not their primary reason for being in care. We therefore propose to cost the policy on the basis of a thousand homes per year.

Based on the Government's Disabled Facilities Grant available to disabled people for home adaptions, with an average grant of about £7250 for 2008-2011, an initial allocation of £8m per year is expected to be sufficient but will be under review.

Schools

Core schools spending

All estimates here are on top of the additional funding announced by the Government at Spending Round 2019. This gives a cash uplift compared with 2019-20 funding levels of £25bn over the following three years, corresponding to the period of the Government's announced £14bn.

The IFS' '2019 annual report on education spending in England' and accompanying data tables are used to calculate the total level of (non-sixth form) school spending in 2009-10 and 2018-9 and adjusted for pupil numbers taken from the same report to £366m in 2023-24. (NB the same report says that "fully closing" the gap in spending since 2009-10 would cost £300m (2019-20 prices) in 2022-23.)

There are other spending pressure on schools: the Association of School and College Leaders' report 'The True Cost of Education' (March 2019) estimated revenue of £41.7bn would be needed in 2023. We have interpolated in intermediate years to reach the additional spending required over a projection for the Schools Block in 2023-24. Their estimates incorporate, amongst other things, the cost of funding all pupils to have a qualified teacher for 100% of teaching time, and maximum class sizes of 30.

Taken together the above commitments raise the Schools RDEL (excluding depreciation) figures as below compared to a "core 5-16 schools budget, excluding pensions compensation funding, in 2019-20 [of] £43.5 billion" and giving a three-year total of £24.8bn. In 2023-24 Schools RDEL spending will be £57.5bn compared with a baseline of £53.2bn obtained by adjusting the 2022-23 published total for inflation. This excludes the Department of Education's allocation of the public sector pay allocation discussed elsewhere, and the additional spending described below. The interim years covered by the Spending Round 2019 announcement are, in comparison with SR2019 Table 2.3:

£ billion

	2019-20	2020-21	2021-22	2022-23
Schools RDEL excluding depreciation	44.4	51.0	53.3	55.5
of which pensions funding	0.9	1.5	1.5	1.5
of which cash uplift compared to 2019-20 funding levels	n/a	6.0	8.3	10.5

This government has failed to provide sufficient funding to support pupils with special educational needs and disabilities, pushing local authority high needs budgets into deficit. We will provide an emergency cash boost to schools to clear the deficits accumulated by councils (estimated in 'Have we reached a tipping point?' by the Local Government Association and Isos Partnership to be £690 million between 2015-16 and 2018-19). In government we will complete the ongoing review into high needs funding, and provide sustainable funding moving forward.

Additional places required as a result of VAT on private school fees

In addition to the above, to account for additional pupils in the state system resulting from the imposition of VAT on private school fees, we have used the IFS' estimate in 'The demand for private schooling in England: the impact of price and quality' of -0.26 for the elasticity of demand for private schooling, giving a 5% decrease in private school pupils and an increase in state school places as a result. Per pupil funding, based on applying the above to pupil numbers from the DfE's 'National Pupil Projections July 2018 (2019 update), is estimated on the same basis as above.

This assumes that the full cost of the VAT is added to school fees with no reduction in pre-tax fees and that all of the pupils affected move into the English state system rather than being schooled elsewhere. If either of these were untrue, the cost would be lower.

Universal Primary Free School Meals

Projections based on pupil projections by school year from the DfE ('School Capacity 2017 to 2018' Table A4) and share of primary school, non-infant pupils currently eligible for free school meals also from the DfE ('Schools, Pupils, and Their Characteristics' (January 2019)). We have assumed that uptake for universal free school meals will be the same as uptake for the existing government policy of universal infant free school meals.

Per pupil per day cost for existing infant school meals is estimated from DfE 'UIFSM Conditions of Grant' and adjusted for inflation going forwards to £900m in 2023-24.

Arts Pupil Premium

Setting an Arts Pupil Premium based on the original model for the Sports Premium (£160m according to the DfE in October 2017) would mean an inflation-adjusted cost of around £175m in 2023-24

Skills and Lifelong Learning

Restore the Educational Maintenance Allowance

An estimate for pupils eligible for each level of EMA is calculated using House of Commons Library estimates on eligibility and the Department's student number projections. Although EMA rates were frozen we have assumed an inflationary uplift to restore the real value. Data are from House of Commons Library briefing 'Education Maintenance Allowance (EMA) Statistics' and Anne Milton MP's response to Written Question 266272.

Equalise the base rate of 16-19 funding in FE with the base rate in Key Stage 4 schools funding.

This estimate is based on DfE estimates for student numbers (Written Question 266272 above) and the difference between the current Key Stage 4 base rate – taken from DfE's 'The national funding formula for schools and high needs' – and the £4,000 base rate for 16-18 funding with the increase arising from Spending Round 2019, adjusting for inflation.

Lifelong Learning Commission

Estimates for the recommendations from Labour's independent Commission on Lifelong Learning 'The Future is Ours to Learn' draw on the work of the Commissioners. They are based on data for the current 'Qualifications of Working Age Population' in England from the Office for National Statistics, the number of current learners at Level 3 in the DfE's 'Further Education and Skills release March 2019', and at Level 4+ from the DfE's 'Review of Level 4 and 5 Education Interim Evidence Overview' (August 2018)

Funding rates for Level 3 are assumed the same as 16-18 above, those for Level 4+ are assumed at the average funding rate for Level 4/5 apprenticeships given by the DfE's apprenticeship funding bands.

Potential learners at each level are taken to be the total of working age adults with their highest qualification at a lower level: this is modelled to change as more people gain their Level 3/4+ qualification and move in and out of potential learner groups. Demand is assumed to rise to 1.5% of potential learners, as recommended by the Lifelong Learning Commission. At Level 3 we assume that 25% of learners take their course in a single year at 1FTE funding rate, 50% in two years at 0.5FTE, and 25% in three years at 0.33FTE, to reflect different rates of progression. In L4+ we simply assume that 1.5% of eligible learners are using the equivalent of a year's funded entitlement each.

Calculations for the level of learners eligible to maintenance grants are linked, with the average grant (average of all learners, not just those eligible) based on the 2012-2015 HE maintenance grant taken from the Annex to the Augar Review.

Union Learning Fund

We will commit an additional £50m to the Union Learning Fund, more than reversing the cuts made since 2010.

According to the annual reports of ULF, the budget in 2010 was £21.4 million. This fell to £12 million in 2018-19.

ULF has a significant, positive return on investment for both individuals and the Exchequer. Across a range of different projects[12], ULF found that the return on investment for the Exchequer ranged between £2.60 and £3.87 for every £1 spent. Using these estimates, additional investment of £50 million would generate a return on investment of between £130 million and £194 million.

Restore funding for English as a Second or Other Language ("ESOL")

House of Commons Library briefing shows that the real terms ESOL budget fell from £227 million in 2009-10 to £99 million in 2016-17 (2016-17 prices). This is adjusted for inflation to around £146 million in 2023-24.

[12] See 'Getting the Learning Habit', Unionlearn Annual Report 2019

Higher Education

Abolish tuition fees and bring back maintenance grants

The IFS published an estimate for the cost of scrapping full time students' tuition fees and bringing back maintenance grants in their '2019 annual report on education spending in England' (Table 5.2).

This estimates the cost (including those not currently taking out loans) of moving from the current system to 'Abolishing tuition fees and bringing back maintenance grants' as being an increase of £12bn in direct grants but a total deficit impact of only £6bn, based on 2017-18 student numbers. The difference is a saving in the capital spending under the current system relating to the writing off of student loans.

In line with the recommendations of the Government's 'Augar Review' we have assumed a three-year freeze from 2020-21 to 2022-23 on per pupil funding but total RDEL outlay increases with inflation every year, to ensure maintenance grants get more generous and universities have the funding that they need. This means that, despite projections for the number of FT undergraduates to decline in the forecast period due to a falling number of 18 year olds, we have allowed for an increase in participation.

For part-time students we use HESA figures for students, Student Loans Company data on student support, an estimate of the proportion of current part-time students who are taking out, and the part-time RAB charge from the DfE's 'Student loan forecasts' data on non-repayment of existing loans. This gives us a saving on CDEL due to the ONS' reclassification of student loans: the money being spent on the current system which will no longer be necessary under Labour.

For maintenance grants for part time students, we have assumed that grant availability is, across all learners, 50% of the average full time grant. As with maintenance grants for lifelong learning, we have used the average (across all students) grant awarded under the 2012-15 system (from the Augar Review). We have assumed that part time loan eligibility is the same as in FT, but measured by household, rather than parental, income, to reflect the different circumstances of many part-time learners.

Accommodation fund for care leavers

This model is based on the average accommodation costs across a representative sample of ten universities in different parts of the country – conducted by the Drive Forward Foundation – which found average accommodation costs of around £6,500 for 52 weeks of accommodation

We assume an increase of 250 in each year from 2020-21 to 2023-24, meaning that by the end of the forecast there are 1,000 more care leavers in higher education, an increase of more than 50%, and adjust for inflation to around £21 million.

National Youth Service

We have assumed that the delivery of a National Youth Service requires a return to 2010 levels of funding for services for children and young people.

Total spending on services for young people fell from £1.2bn in 2010-11 to £375m in 2019-20, according to data from the Department of Education (Section 251: 2019-20 and Local Authority and school expenditure: 2010-11): a real terms cut of over £1bn.

3. Health and Social Care

Health

Overall spending on the Department of Health and Social Care budget (DHSC TDEL) will rise under Labour by an average of 4.3% per year in real terms, excluding additional funding for introducing free dentistry, prescriptions and car parking (see below), above the rate reported by the Health Foundation and IFS in 2018 as required to improve services from the level they have fallen to.

Estimating the costs of this spending across the forecast period entails assuming a baseline beyond where one has yet been allocated. For NHS England RDEL the latest figures are from Spending Round 2019: for later years the figures are those from the June 2018 announcement adjusted for the additional spending announced in early 2019. For other areas we have assumed the baseline entails a real-terms freeze so any additional costs above this are costed. This gives a budget for the Department of Health and Social Care of £178bn in 2023-24, including £155m for the NHS England RDEL budget. Capital budget increases are covered by Labour's Social Transformation Fund.

Contained within the envelope for 'non-NHS England RDEL' is Health Education England, which includes Labour's commitments to restore nursing bursaries and the training of new GPs.[13]

Contained within 'non-NHS England RDEL' are also public health budgets in England. In "Urgent call for £1bn a year to reverse cuts to public health funding", the Health Foundation and the King's Fund called in August 2019 for a "clear and urgent commitment to restoring £1bn of real-terms per head cuts to the public health grant". We have committed to this and adjusted for inflation in future years.

Three additional announcements will add to NHS England budget but funds are provided on top in recognition of the additional responsibilities imposed:

Free car parking

In England in 2018-19, NHS trusts received £185.6 million in income from patient and visitor parking, and £86.2 million from staff parking, according to NHS Digital 'Estates Return Information Collection 2018-19' (Table 4b).

Free prescriptions

According to DHSC department accounts £576m was received in prescription charges in 2017-18. In Scotland, prescription charges were abolished on 1 April 2011 but the volume of prescripted items dispensed increased by only 3.8% from 2010/11 to 2011/12 (compared with an increase of 2.4% in the years either side). Scottish Government Ministers concluded that "It is

[13] The House of Commons Library briefing paper "Reform of support for healthcare students in England" reports that total spending on bursaries for nursing, midwifery and allied health professions peaked at £450m in 2010/11, which is forecast to be under £600m adjusted for inflation. The cost of training an additional 1,500 GPs, estimated at £273m, runs 2020-23.

simply not the case that free prescriptions have led to a free-for-all, or caused a hike in prescribing"[14]. Erring on the side of caution we have budgeted for a 5% increase.

Free dentistry

Based on figures from the British Dental Association we have modelled costs of ending patient charges for Band 1 treatments among paying adults.

We used 'NHS Dental Statistics 2018-19 (table 7a)' for the cost of Band 1 courses of treatment delivered to paying adults, increased to the participation rate amongst adults in Scotland where free check-ups have introduced and combined with the average Unit of Dental Activity rate from 'NHS payments to dentists' 2019, uprated for inflation.

We have also allowed some headroom for additional Band 2 and 3 treatments that result from more regular check-ups: these should reduce over time as dental health improves.

Social Care

The social care system needs urgent funding as well as structural change for the long term. Labour believes personal care should be free at the point of use, paid for through general taxation, like healthcare, and have described our plans for a National Care Service with free personal care in the policy document 'Towards a National Care Service'.

The King's Fund report 'A fork in the road: Next steps for social care funding reform' laid out various options for social care reform and estimated a funding gap of £1.5bn in 2020-21 rising to £6bn in 2030/31. In the same report free personal care is estimated to take the total cost to £7bn in 2020-21 and £14bn in 2030-31.

Linear interpolation and adjusting for inflation gives a total cost of £10.8bn in 2023-24.

[14] Scottish Government (2014) "Free Prescriptions," 8th August 2014

4. Work & Pensions

Short-term reforms to Universal Credit pending redesign of the social security system

Labour will scrap Universal Credit. During the period while we design our replacement social security system we will stop the rollout of Universal Credit (UC) and reform it to fix its worst flaws.

Scrap the two-child limit and the benefit cap

The House of Commons Library based their calculations of the cost of scrapping the benefit cap on an estimate of how much was deducted from awards in 2018-19, based on DWP Benefit Cap quarterly statistics and Benefit Cap dataset on DWP Stat-Xplore, adjusted for inflation, reaching £185m in 2023-24.

Their estimate of the cost of abolishing the two-child limit is based on the OBR's Policy Measures Database and Spring Budget 2017 to account for the Government's revisions to provide targeted exemptions in certain cases and reverse the retrospection originally intended to apply to children born before April 2017 in brand-new UC claims. It reaches £1,995m in 2023-24.

There is a potential 'interaction effect' between these two: the cost of doing both together is more than the sum of doing them individually. Estimating this accurately is impossible without access to the Government's model so we have allowed an additional £300m for this to bring the total for the spending line to £2,500m in 2023-24.[15]

The Institute for Fiscal Studies estimated the costs of the policies at around £2bn and £200m individually when announced.[16]

Link Local Housing Allowance to the 30th percentile of rents

£ millions	2019-20	2020-21	2021-22	2022-23	2023-24
		800	874	949	1,025

The House of Commons Library estimated this using a scaling factor by calculating the difference in award per week between the weighted average LHA rate growing in line with LHA eligible rents (baseline scenario) and the weighted average of the 30th percentile rent, rising in line with the growth in actual rents.

This scaling factor is applied to the overall expenditure on Local Housing Allowance in each year under the proposed policy, and the baseline expenditure forecast is subtracted.

This is then adjusted by a constant percentage to account for the difference between the 2020-21 estimate and the Department for Work and Pensions' own published estimate for that year

[15] Independent work from New Economics Foundation ('A Radically Different Social Security System', November 2019, footnote iv) also suggests around £300m for the potential interaction effect.
[16] IFS, 'Labour policy to reform and replace Universal Credit', 28 September 2019

(Local Housing Allowance: Written question 456; answered by Will Quince MP 22 October 2019). Data are from the DWP Benefit Expenditure and Caseload tables. A further £300m allowance for interaction with lifting the benefit cap is included.

Hire 5,000 more advisors to address shortfall and end "digital only" approach

PCS union carried out a fine-grained survey of their members in DWP which estimated that 5,000 more UC advisors were needed. UC was intended to be "digital only" but this is failing, putting enormous pressure on advisers to support claimants in managing their applications.

Work Coach positions have been advertised at between £24k and £26k per year (OBR). DWP workforce management data suggests that on-costs (including NICs and pension contributions) add around 26% to salaries. Allowing for wage inflation would still see the cost below £200m in 2023-24.

Interim payment to reduce five week wait

Policy in Practice's report 2017 paper 'Universal Credit: Options to smooth the implementation for claimants' estimates the "steady-state" cost of an interim payment at £43m, assuming 200,000 households a year moving onto UC. However according to the DWP (Amber Rudd MP letter to Frank Field MP, 24 April 2019), 100,000 households are expected to make entirely new claims per month this year. Assuming this is correct and we have approximately 1.2m new claims annually rather than 200,000, we scale up the estimated cost to £258m and adjust for inflation.

Increase Employment and Support Allowance by £30 a week for those in the Work-Related Activity Group & Universal Credit's Limited Capability for Work Group

£ millions	2019-20	2020-21	2021-22	2022-23	2023-24
	205	275	360	445	520

The work-related activity component of ESA has not been available to new claimants since April 2017.

This costing from the House of Commons Library is based on a simplified projection of recent trends within the caseload of ESA Work-Related Activity Group claimants who have an award in payment, using a linear projection of growth in the share of this caseload assumed to have begun their claim in or after April 2017. Data are taken from DWP Stat-Xplore ESA datasets and DWP Benefit Expenditure and Caseload Tables 2019 incapacity benefits forecast.

Introduce a self-care element in Universal Credit

Introducing a self-care element in Universal Credit that will provide support to people that are severely disabled and do not have a paid carer would be an equivalent of Severe Disability Premium (SDP) which severely disabled people in the Support group of Employment and Support Allowance (ESA) can currently receive if they do not have a paid carer. The self-care element would be paid at the same rate as the carer element in Universal Credit (currently £160.20 a month).

The Disability Benefits Consortium estimated the cost at £1,015m, based on Department of Work and Pensions figures showing 528,000 people in receipt of the Severe Disability Premium. This would rise to £1,265m if uprating that self-care element to ensure that all those on Universal Credit who would have qualified for SDP in the ESA support group are no worse off on Universal Credit than in the legacy system. This is adjusted for inflation.

Raise the basic rate for disabled children in Universal Credit into line with the rate for the disabled element in Child Tax Credits

The basic rate of support for disabled children in Universal Credit – for children getting Disability Living Allowance or Personal Independence Payment, but not the highest rate care component of the former, or the enhanced rate daily living component of the latter – is less than half the basic addition for disabled children in Child Tax Credits - £1,513 a year compared with £3,355.

The House of Commons Library estimates that the number of children on the Universal Credit lower-rate disabled child amount will be in excess of 160,000 if Universal Credit was fully rolled out. This is based on April 2019 in-work tax credit and Universal Credit caseloads combined, and assumes that UC households with disabled child entitlements have the same characteristics as their in-work counterparts in the Tax Credits system.

They estimate that raising the basic disabled child element to the level of that in Child Tax Credits would cost over £295 million a year in 2019-20 terms, based on HMRC 'Personal tax credits provisional statistics tables' and the DWP Stat-Xplore households on Universal Credit database.

Universal Credit and Housing Benefit: Scrap the bedroom tax

£ millions	2019-20	2020-21	2021-22	2022-23	2023-24
	325	330	340	350	365

The House of Commons Library estimate that the "underoccupancy penalty" reduced Housing Benefit awards in the social rental sector in Great Britain by an aggregate of £287 million in 2018-19. Forecasting forwards they took the DWP's forecast of total expenditure on housing benefits (HB and UC) going to social rental sector tenants, and assumed that deductions from social rental sector awards throughout the forecast period continue to account for the same proportion of total expenditure as it does in the current financial year (in respect of Housing Benefit).

Data from DWP Stat-Xplore housing benefits datasets and DWP benefit Expenditure and Caseload Tables 2019 housing benefits forecast.

Scrap Bereavement Support Payment reforms

The Government's Explanatory Memorandum for The Bereavement Support Payment Regulations 2017 states "once the benefit reaches steady state, savings are expected to be around £100m per year."

Increase Carer's Allowance to the level of Jobseekers Allowance

According to the House of Commons Library, if Carer's Allowance were increased to the same level as the Jobseeker's Allowance (JSA) personal allowance for single people aged 25 and over (i.e. £66.15pw to £73.10pw in 2019-20), this would cost £315 million in 2019-20, rising to £335 million in 2020-21 and £395 million in 2023-24.

This takes the DWP's forecast annual cash expenditure on Carer's Allowance to 2023-24 (as at Budget 2018) and increases this in proportion to the value of JSA versus Carer's Allowance).

Double paid paternity leave and increase paternity pay to a full week at the minimum wage

Costing based on doubling entitlement from two weeks to four and increasing a week's statutory paternity pay from £148.68 (2019-20) to 37.5 hours at Labour's £10 per hour real living wage. Caseload estimate for 2018-19 provided by Liz Truss MP in response to Written Question no. 254831. Figures adjusted for projected inflation, earnings and population forecasts.

Extending Statutory Maternity Pay entitlement to 12 months

£ millions	2019-20	2020-21	2021-22	2022-23	2023-24
		720	740	765	795

This House of Commons Library costing takes the latest DWP forecast for Statutory Maternity Pay (SMP) expenditure to 2023-24 and then scales this up in line with an illustrative SMP claim worked out using the latest data on average earnings among women aged 18 to 39, resulting in an across-the-board increase in SMP expenditure of 26.4%. Data is from DWP Benefit Expenditure and Caseload Tables 2019 Spring Statement edition and ONS Employee earnings in the UK: 2019 Annual Survey of Household Earnings (Table 6).

Restore pension credit for mixed aged couples

DWP Research and Analysis briefing 'Mixed age couples: benefit impacts of ending access to Pension Credit and pension age Housing Benefit' (updated April 2019) gives the estimated saving from implementing this policy as:

£ millions	2019-20	2020-21	2021-22	2022-23	2023-24
	45	130	220	315	385

Uprate the state pension of British pensioners overseas

£ millions	2019-20	2020-21	2021-22	2022-23	2023-24
		55	97	146	198

This figure was estimated by the House of Commons Library by taking the total expenditure on frozen pensions in 2018-19 and applying the Office of Budget Responsibility's annual 'triple lock' uprating forecast to each of the following years.

Calculations are based on DWP Benefit Expenditure and Caseload Tables, DWP Stat-Xplore State Pension dataset and the OBR Economic and Fiscal Outlook March 2019.

5. Culture, Media and Sport

The cost of free TV licences to the BBC has been widely reported as £745m in 2021-22: adjusting for inflation forecasts and allowing for over-75s population growth we believe the cost is below £800m in 2023-24.

The ongoing costs of operating a full-fibre broadband network are significantly lower than for earlier forms of broadband: fibre optic cables are more robust, it is easier to detect faults where they do arise, they are cheaper to replace if they need replacing, and symmetrical bandwidth results in lower operating costs.

The National Infrastructure Commission estimates that a full-fibre broadband rollout will save £5.1bn on operating costs over a thirty year period ('National Infrastructure Assessment', July 2018, Figure 1.1), costing just £6.9bn over a thirty year period: around £230m a year (averaging discounted present values). Operating costs are estimated at £579m in cash terms in the 'Tactis/Prism' report 'Costs for Digital Communications Infrastructures' (2017), which are adjusted for inflation. Staff costs for rolling out the network, as opposed to ongoing costs remaining afterwards, are included in capital expenditure.

There are several reasons why this may lead to an overestimate. First, the Tactis/Prism report estimate assumes no infrastructure re-use ("every piece of infrastructure is considered as 'yet to be built'", p51) when infrastructure re-use will occur as part of British Broadband's roll-out. Second, most estimates are predicated on competitive market models, which Labour will not adopt. Nevertheless we have allowed a further £1,200m in 2023-24 in addition to the (inflation-adjusted) £579m to err on the side of caution.

6. Other spending areas

Local Government

After years of cuts local government in England is in crisis, with recent research from New Economics Foundation ('Councils in Crisis', September 2019, pre-Spending Round) suggesting councils face a £25.4bn funding gap by 2024-25. Much of this relates to adult social care, addressed in Section 3. At the same time, changes to how local government is funded have meant less well-off areas have suffered disproportionately large cuts to their spending power.

Labour has pledged to restore several areas of local government funding via other departments' spending, including SureStart, youth services and public health. In addition to these we will invest in homelessness services (see below) and put local government on a sustainable financial footing with a boost to the Revenue Support Grant. Local government will also benefit from its share of our policy to raise public sector pay, which is covered elsewhere: excluding that we estimate that these will raise in the region of £20bn for local government in 2023-24.

Housing

The National Audit Office's report 'Financial sustainability of local authorities 2018'[17] shows that there has been a £996m cut from 2010-11 to 2016-17 (2016/17 prices) in 'Housing services: Housing welfare – supporting people'. Labour will restore this funding, adjusted for inflation, in addition to the general increase in the Revenue Support Grant described above.

Justice

According to the Ministry of Justice 'HM Prison and Probation Service workforce statistical bulletins' for September 2018 and June 2019, the number of Band 3-5 prison officers fell from 24,830 in 2010 to 22,321 by June 2019: a drop of 2,509. In response to Written Question 280425, Lucy Frazer MP stated that the cost of 2,500 new posts when announced in 2016 was £106m and which "equates to £112m for the 2019-20 financial year".

Estimates for restoring legal aid funded Early Legal Help are based on the Ministry of Justice's 'Legal Aid statistics tables' April-June 2019. The total value of claims fell from £256m in 2009-10 to £93m in 2018-19, a fall which is adjusted for inflation to £226m.

The government's 2019 review on legal aid for inquests said there are about 500 inquests a year into deaths in custody, prisons and mental health institutions. Edward Argar MP's response to Written Question 222585 indicated an average cost per case of £8,642. This is weighted across years and uprated for inflation to around £5m per year.

Members of the Advisory Board on Female Offenders, set up by the government to advise on community sentences for women, on women's prisons and probation, have criticised recent funding for the Female Offender Strategy. An open letter from members of the Advisory Board

[17] National Audit Office (2018) "Financial Sustainability of Local Authorities 2018," HC 834

on Female Offenders (at weareagenda.org) says that at least £20m per annum is required to plug the shortfall.

Labour will provide £18m over five years for 200 new posts to train the next generation of social welfare lawyers. These will be based in specialist social welfare agencies such as Law Centres or other legal aid providers. This will build on the success of initiatives already underway such as the Justice First Fellowship, where each fellowship place costs £80,000 over two years including the salary costs plus 50% to fund the supervision and associated costs of hosting a Fellow with an additional administration fund for centrally managing and expanding the scheme.

Labour has been working with experts in the Law Centres movement on a blueprint for a sustainable expansion of the current network of 60 Law Centres, based on a £20m investment over five years. Their final report will be published in Spring 2020.

We will also set aside a centrally managed pot of £20m a year for a Criminal Justice Innovation Fund, the aim of which is to reduce the number of people reoffending and to strengthen the best local alternatives to custody. Over the medium term this approach will free up resources as prison is often the most expensive, and least successful, way of reducing reoffending.

Foreign and Commonwealth Office

In 2018 the FCO spent £421m of Overseas Development Assistance through the Conflict, Stability and Security Fund (Table 4 of DfID's 'Statistics of International Development: Final UK Aid Spend 2018'). We will resource the FCO with more than an extra £400million to rebuild its capacity and expertise on human rights, climate diplomacy and conflict prevention. This additional funding will pay for the department's negotiating and analytical expertise on mediation and peace processes as well as funding for new human rights advisors and climate change experts. The additional money will go into the new human rights based peace fund, which will replace the CSSF.

Home Office

According to Circular NJC/3/19 of the National Joint Council for Local Authority Fire and Rescue Services the annual salary of a 'Competent' grade firefighter is £31,144. With employer costs, including pension, 5,000 firefighters at this grade would cost around £216m in 2019-20 (then uplifted for inflation) in salary costs. The actual cost is likely to be lower as not all new recruits may be at 'Competent' grade.

Business, Energy and Industrial Strategy

Labour will remove the five-year surcharge on electric vehicles with a list price of over £40,000 purchase in 2020-21 and 2021-22. With a rough assumption on the rate of sales needed to reach

100% electric sales by 2030, we generously assume half are fleet vehicles and 60% are over £40,000 to get an approximate cost of £165m in 2023-24.

Defra

By 2023-24 we will have increased funding for Defra executive agencies and arms-length delivery bodies by £70m, including £50m for Natural England to ensure the highest quality accurate environmental impact assessments for our nature restoration and economic transformation programme. We will also have increased funding to Natural England by £75m for the purposes of managed recreational access and nature restoration in our current and future national parks.

We have previously announced an Access to Food fund with two years' funding (2020-2022) of £3m each year. This will be reviewed after two years.

Public sector pay

Labour's policy is not to impose pay deals but to respect the independent bodies and collective bargaining mechanisms, so the figures in this document do not represent guaranteed pay deals but the additional money to be provided to departments to meet the cost of pay deals negotiated individually.

Estimates of the cost of future rises in public sector pay are based on Public Expenditure Statistical Analysis 2019 (Table 5.3). Departmental budgets have not been set all the way to the end of the forecast period, so a baseline is assumed based on 'Assumed paybill per head growth' and 'Government employment growth' from the March 2019 OBR Supplementary Tables (Fiscal 4.24 and Economy 1.12). Comparison with that is made on the basis of assuming a 5% increase in the total pay bill in 2020 plus an allowance of 0.5% for pay drift, and increases in line with OBR (March 2019) forecasts for wages thereafter.

The net cost will be significantly smaller than the figure here: this includes tax payments made directly by Government departments and agencies to HMRC for staff payroll taxes, for example.

7. Income Tax

(England, Wales and Northern Ireland)

To estimate the pre- and post-behavioural yield from changes to income tax policy we have largely followed methodologies described by HMRC[18] and the Institute for Fiscal Studies[19] though, as earnings distributions and policies are different to earlier assessments, some parameters differ (this is explained below).

First, the mechanical yield is calculated: the yield which would be raised from an income tax increase if behaviour is unchanged. This is based on empirically fitting a Pareto distribution to match the percentile data from the Survey of Personal Incomes – Income Before Tax (Table 3.1) to give an alpha parameter of 2 (matching the IFS analysis of our 2017 income tax policy) and a base parameter that moves to fit the data in each year.

From this the number of taxpayers in each bracket and their average income are available[20] and the additional tax payable on each part of income for each tax bracket can be calculated for those above £80,000.

The yields for each tax bracket are added together to get the total mechanical tax yield, which is estimated at £11.4 billion for 2023-24.

Estimating the potential behavioural response is an empirical question. Methodologically we need an estimate, for each income bracket, of the 'taxable income elasticity' (or TIE): a measure of how much the income declared by a person to the HMRC will change in relation to a tax changes.[21]

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[18] HMRC, 'The Exchequer effect of the 50 per cent additional rate of income tax', March 2012

[19] Institute for Fiscal Studies, 'Labour's proposed income tax rises for high-income individuals', May 2017

[20] We scale down the number of people in each bracket by 10% to account for the difference between total income and taxable income (see IFS, 'Labour's proposed income tax rises for high-income individuals', Appendix 3).

[21] Post-behavioural yield is estimated by:
$M + (\Delta Y \tau n)$

Where:
M is the pre-behavioural yield for all the people in the tax bracket (the 'mechanical yield')
Y is total income declared to the taxman for the average income person within a bracket
τ is the 'average' tax rate on incomes
n is the number of people in the tax bracket

And $\Delta Y = Y \varepsilon \frac{\Delta MRR}{MRR}$ where $\varepsilon = TIE$ and MRR = the marginal rate of retention (the proportion of each additional pound received by the individual after tax)

The TIE is often a function of income, with elasticities frequently higher for the super-wealthy who are commonly believed able to switch income between different forms, move it elsewhere or hide it (legally or otherwise). The majority of estimates of the TIE lie between 0 and 1.[22]

In 2017, using panel data, researchers from the IFS looking at higher earners estimated the TIE at 0.31 for earners above £150,000, using data from the 2010 reform[23] and superseding previous, less accurate estimates. The same research estimated an elasticity of 0.1-0.2 for those with incomes around £150k.

At the 'lower' end, HMT used a TIE of 0.03 for those affected by the cuts to the higher rate threshold in 2012.[24]

However, elasticities and behavioural responses are not parameters which are unchanging or set in stone: As the IFS paper makes clear:

> "*The taxable income elasticity is not a constant or immutable parameter: it will depend both on how responsive individuals are to changes in the tax rate they face, which could change over time depending on the outside options they face, and on the structure of the tax system, in particular whether individuals can avoid paying high rates of income tax by shifting income into tax shelters or other less heavily-taxed bases. Since the 1980s, efforts to broaden the UK's tax base, for example by eliminating tax relief on mortgage interest and life assurance premiums, would tend to have reduced the taxable income elasticity. On the other hand, the increasing globalisation of the world economy might have increased the opportunity for those with high incomes in the UK to work in other countries.*"[25]

There are good reasons for thinking that the TIE would be lower than this under a Labour government than it was at the time of previous estimates.

- Labour will close the gap between taxation rates for labour and capital gains (see Section 9) stopping a major avenue of avoidance and hence lower the TIE: As the IFS paper based on 2010 reforms notes:
  "*It is also possible, though, that estimates of the taxable income elasticity are overstating the degree to which behavioural response will impact tax revenue… dividend income appears particularly responsive to the higher tax rate, which may reflect the fact that owners of businesses can choose to retain income in their own company, taking dividends out years down the line, or taking income in the form of capital gains through selling shares in the company (and so instead paying capital gains tax).*"[26] Hence, by closing the gap between the taxation rates for labour and capital, Labour will also lower the TIE.

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[22] C Neisser, The Elasticity of Taxable Income: A Meta-Regression Analysis, Discussion Paper, ZEW, 2017, p.1
[23] J Browne and D Phillips, Estimating the size and nature of responses to changes in income tax rates on top incomes in the UK: a panel analysis, IFS Working Paper, W17/13, p.1,
[24] Office for Budgetary Responsibility (2014) "Policy Costings and our Forecast," Briefing Paper No. 6, para 4.32
[25] ibid, p.5
[26] Ibid, p.4

- Labour's broader tax reforms (see Sections 9 and 11) will move the tax system closer to that in Scandinavian countries which tend to have a lower TIE: Estimates of the TIE tend to be lower in Scandinavian countries (and hence the behavioural effect less) than those estimates elsewhere, especially the USA. In one study the mean Scandinavian estimate for the TIE is 0.208 before deductions (0.124 after deductions) compared with 0.54 for the USA and 0.25 for other countries (0.669 and 0.207 after deductions), a comparative result found in other studies.[27] One paper argues this may be because
  "First, the Scandinavian tax systems have very wide coverage of third party information reporting and more generally, well-developed information trails that ensure a low level of tax evasion. Second, broad tax bases in these countries further encourages low levels of tax avoidance and contribute to modest elasticities of taxable income with respect to the marginal tax rate. Third, the subsidization or public provision of goods that are complementary to working— including child care, elderly care, transportation, and education—encourages a high level of labor supply."[28]

- A TIE as low as 0.1 for those earning above £150,000 would be within the realms of possibility under the estimates from the 2017 IFS panel data paper: the 95% confidence interval spans from 0.09 to 0.53.[29] In other words even a TIE as low as 0.1 is still within the realms of possibility even if the IFS's estimate is correct.

Despite evidence of lower TIEs under better tax regimes we have erred on the side of caution by using a TIE of 0.31 for earnings above £150,000, following the IFS research. We have used a TIE of 0.15 for those earning £125,000-£150,000, one of 0.1 for earnings £100,000-125,000 and one of 0.05, close to HMRC's 0.03, for £80,000-100,000. Our estimates also make an adjustment for the existing different income tax rates in Scotland, meaning the block grant is adjusted down by the same amount. Income tax policy in Wales is devolved but set at the same level as England so we have assumed that this will move in line.

(Note that there is no direct comparison with the 2017 figure in 'Funding Britain's Future' which was the pre-behavioural yield for a different year, with behavioural change subsumed into a separate "adjustment" figure lower on the same table.)

[27] C Neisser, The Elasticity of Taxable Income: A Meta-Regression Analysis, Discussion Paper, ZEW, 2017
[28] Kleven, How Can Scandinavians Tax So Much?, Working Paper, 2014, p.2
[29] Browne and Phillips ibid, p.14

8. Corporate taxation

Corporation tax

Estimates for the yield of Labour's Corporation Tax policy are based on HMRC's 'Direct effects of illustrative tax changes'. The yield from a 1pp increase from April 2020 is estimated at:

£2.0bn for 2020-21

£2.8bn for 2021-22

£3.1bn for 2022-23

These include some allowance for behavioural change and are assumed to be linear, subject to further allowance described below, in line with HMRC: "the effects of the illustrative changes can be scaled up or down to provide a rough guide to the potential effects. A reduction of 2p in a tax rate will cost around twice as much as a reduction of 1p"

Labour would, in contrast to the official baseline which has corporation tax at 17% from April 2020,[30]

- Reintroduce a small profits rate for firms with a turnover under £300,000 a year
- Raise the main rate of corporation tax to 21% from April 2020, 24% from April 2021 and 26% from April 2022.
- Keep the small profits rate at 19% in April 2020, rising to 20% in April 2021 and 21% in April 2021

This will leave corporation tax rates for all firms lower than they were when the previous Labour government left office in 2010.

	2020-21	2021-22	2022-23	2023-24
Baseline	17%	17%	17%	17%
Labour (headline rate)	21%	24%	26%	26%
- differential	4pp	7pp	9pp	9pp
Labour (Small Profits Rate)	19%	20%	21%	21%
- differential	2pp	3pp	4pp	4pp

The HMRC 'ready reckoner' from 2013[31], before the Small Profits Rate was abolished, suggested that a 1pp rise in both rates would yield around 1.7 times as much from the Main Rate as the Small Profits Rate. If used to disaggregate the potential yield per percentage point increase from the two rates this would lead to an underestimate on yield, so we have let the estimated share of profits subject to the Main Rate drift up slightly to allow for some fiscal drag.

[30] Boris Johnson's announcement of the postponing of the delay by a year does not affect the official baseline and has not entered the official figures we have used on deficit etc

[31] HMRC, Tax Expenditures and Ready Reckoners

Some have claimed that the long-run fiscal effects of increasing corporation tax would be less than the short-run effects estimated by HMRC as business investment is discouraged. The evidence of investment being encouraged by corporation tax cuts since 2010 is very weak: growth rates of business investment have consistently disappointed since the financial crisis despite headline corporation tax cuts from 28% to 19%:

> "On average, after previous recessions, investment grew by almost 30% over that period. Even the most anaemic recovery in investment since 1970 (the post-1990 recovery) still saw investment 30% higher than its pre-recession level. In the current recovery, this figure is now just 12%" (The IFS Green Budget: October 2019, Chapter 2)

Unitary taxation of multinational corporations

Currently multinationals operate with separate companies at 'arm's-length': for example, Facebook Ireland or Facebook UK. Multinationals can 'book' or 'bank' profits in a way that is beneficial from a tax-planning perspective. Facebook's advertising profits, for example, can be booked or banked in a low-tax jurisdiction such as Ireland. Labour will adopt a different approach: treating corporate groups under common ownership as unitary enterprises, so that profits are declared where economic activity occurs and where value is created. The system outlined in the independent report 'Tax Multinationals: a New Approach' is based on sales, assets and labour. It was endorsed by Professor Joseph Stiglitz, Nobel laureate in economics, who said: "It is time for countries to take both unilateral and multilateral actions to tax multinationals; Labour's proposal to start taxing multinationals through formulary apportionment is the right way forward."

The report cites figures from a paper by Alex Cobham, Tommaso Faccio, and Valpy Fitzgerald that shows that if the UK adopted unitary taxation of US multinationals with turnover of $750 million or more alone, $3.96 billion could be gained.[32] Based on the proportion of UK foreign direct investment made up of US multinationals, and on different assumptions about the profiles of non-US multinationals, they estimate a potential yield between £6.0bn and £13.7bn. The authors of the report, and other experts, have said that unitary taxation is consistent with existing tax treaties[33].

Even this lower bound estimate is likely to under-estimate revenues, since it is based only on US multinationals with turnover of $750 million or more, when there are a number of US multinationals with less than $750 million. Adjusting for the higher rate of corporation tax under Labour, and removing 30% for uncertainty and behavioural change, gives a lower estimate of £5.8bn in 2016 (uprated with inflation).

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[32] Data available at https://osf.io/preprints/socarxiv/j3p48/, see 'Supplemental materials'.
[33] See, for example, Turner, G. (2019), 'Unitary taxation – the new approach to corporate taxation and its critics', TaxWatch and Avi-Yonah, R. and Pouga Tinhaga, Z., 'Unitary Taxation and International Tax Rules', November 2014

9. Taxing income from wealth equitably and efficiently

Labour believes that returns from wealth should not be taxed less than those from income. Currently people can earn more income from buying property than from working for a living, and they can pay lower taxes on that. This is not just economically inefficient but socially unfair.

Capital gains tax was last moved to income tax rates by Conservative Chancellor of the Exchequer Nigel Lawson in 1988. Labour will tax capital gains at the same level as income tax and abolish the lower income tax rate for dividend income. It is also a potential inefficiency and source of avoidance that income tax and capital gains tax have separate annual tax-exempt allowances, allowing the wealthy to separate their income into different forms in order to benefit from double tax relief. With a separate dividend tax rate some people with significant income from different sources can benefit from three separate tax-free allowances and there is evidence that business owners declare income in different ways purposely to take advantage of different rates and allowances[34]. Primary residences will continue to be exempt from capital gains tax.

It is now widely recognised that Entrepreneurs Relief in its current form cannot continue, so we will scrap it and consult on a better form of support for entrepreneurs which is not largely just a handout for a small number of people. [35] Sir Edward Troup, executive chair of HMRC until 2018, was reported recently to be calling for its removal[36] on the basis of it providing "no incentive for real entrepreneurship". Similar calls have been made by the Resolution Foundation and the IFS:

> "We do not find any evidence that tax-motivated retention of profits translates into more investment in business capital. If one of the aims of reduced capital gains tax rates on business assets is to incentivise individuals to invest more in their businesses, this evidence suggests they are not working"

This means

- Capital gains will be taxed at the marginal income tax schedule as described in Section 7. Capital gains will still be taxed more lightly, as they are not subject to National Insurance: this is especially the case for those with income below the Higher Rate Threshold.
- There will no longer be a separate annual exempt allowance for capital gains, above a *de minimis* threshold of £1,000.
- As recommended by the Mirrlees Review we will introduce a 'rate-of-return' allowance set at contemporary 10-year bond rates to allow gains below this rate to be earned tax free.

There are very few estimates of the potential impact of a change of this type. We have used figures produced by the Institute for Public Policy Research in their 2019 paper 'Just Tax': their

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[34] H. Miller and K. Smith, 'Low rates of capital gains tax on business income lead to large tax savings but do not boost investment', IFS Observation, 21 October 2019

[35] 'Scrapping Entrepreneurs' Relief – the UK's worst tax break – would give government a £2.7bn head start in funding its NHS pledge', Resolution Foundation, 29 August 2018

[36] 'Scrap tax relief used by Britain's richest, urges former HMRC head', The Guardian, 6 November 2019

methodology is detailed there[37]. It incorporates HM Treasury estimates on the potential behavioural effects from increases in capital gains tax due to 'lock-in' and substitution effects.

There are several reasons why this could be an underestimate, including that:

- It does not incorporate the removal of the personal allowance for earners earning over £100,000.
- Averaging gains above and below the allowance implicitly assumes gains above and below the threshold largely cancel each other out. Further explanation of this can be found on p14 of 'Just Tax'.
- It does not factor in the wider policies that Labour will adopt to tackle tax evasion and avoidance, laid out in Section 11.

The IPPR paper 'Reforming the taxation of income from wealth' estimates the potential yield from this policy at the alternative tax rates proposed by different political parties, giving a yield for 2023-24 of £16bn for Labour policies, reduced to £9bn after adjusting for behavioural change.

In addition to the lighter taxation of capital gains, owners of assets benefit from reduced rates of income tax on dividends from those assets: sometimes as low as 7.5%.

Labour proposes to equalise the tax treatment of income from dividends with other income by charging marginal rates equal to those in our income tax policy as well as – as with capital gains tax – removing the separate allowance subject to a *de minimis* threshold as with capital gains tax.

IPPR analysis ('Reforming the taxation of dividends', November 2019) suggested a direct effect of £11bn under Labour income tax rates, or £9bn after behavioural change in 2023-24. The first and third bulletpoints above, regarding the possibility of underestimation for capital gains tax reforms, apply here as well.

Due to the uncertainty around the yield from these two changes, we have reduced our estimates by £4bn to err on the side of caution.

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[37] Nanda, S. and H. Parkes (2019) "Just Tax: Reforming the Taxation of Income from Wealth and Work" IPPR

10. Financial Transactions Tax

Scope and Design of the Tax

In 2017 Labour proposed an extension of existing stamp duty reserve tax, drawing on the proposals of Professor Avinash Persaud in a paper, 'Improving Resilience, Increasing Revenue: The Case for Modernising the UK's Stamp Duty on Shares'.[38]

The 2017 proposal was, first, to eliminate the existing market maker exemption. Secondly, to extend stamp duty to equity and credit derivatives. Third, stamp duty was to be extended to debt instruments (corporate bonds). The rate was set at 0.5% for non-financial firms, with a discounted rate of 0.2% for financial firms.

In total, this was forecast to raise £4.7 billion a year according to 2016 data. In developing these estimates the paper's author used conservative estimates of the elasticity of demand – the amount of volume of transactions that would be lost as a result of increased costs or taxes.

We will now go further: extending stamp duty reserve tax along the lines recommended in 'Reinforcing Resilience: Making the UK a Citadel of Long-Term Finance,'[39] i.e. to forex spot and derivatives trades, interest rate derivatives, and commodities spot and derivatives trades at 50% of transactions costs. A discount of one-third will apply to financial firms, because financial firms have lower transactions cost. A similar elasticity methodology is used to that used in 2017, leading to an estimate that £2.1 billion will be raised annually by extending the financial transactions tax to these trades, on 2016-17 data.

An exemption will apply to interest rate derivatives under three months' maturity (to avoid cash-like transactions), and for the first £1,000 of foreign exchange transactions daily per market participant. There should be no impact on the costs that ordinary people face for their foreign exchange at bureau de change.

This comprehensive financial transactions tax should help to contribute to less volatile short-term trading as well as raising £8.8bn in 2023-24 after adjusting in line with financial sector profits growth.

Note that the tax is not based on where the trade is transacted, but on who is carrying out the transaction. This 'residence principle' strictly limits the potential of avoidance, as taxation of income from dividends and capital gains already works. This is an important difference between Labour's proposal and Sweden's 1980s brokerage tax.

[38] Persaud, A. (2017) 'Improving Resilience, Increasing Revenue' Intelligence Capital
[39] Bharadia, K. and Boughey, L. (2019) 'Reinforcing Resilience: Making the UK a citadel of long-term finance', Intelligence Capital

Possibilities to avoid the financial transactions tax are limited by developments in tax transparency and technology. Rules on beneficial ownership of companies mean that shell companies cannot be set up without scrutiny. The OECD Convention on Multilateral Assistance in Tax Matters allows for automatic information exchange. Verification that trades have occurred can be secured through cooperation between HMRC and the Continuous Linked Settlement Bank (CLS) and SWIFT (the common messaging provider). As well, the logic of stamp duty – which will be applied to all aspects of Labour's financial transactions tax – creates a strong incentive for the tax to be paid, since an underlying contract will be unenforceable without payment of the required tax.

Pension funds with long-term buy and hold strategies will not be affected by this tax on a tiny fraction of transaction costs of trades. There is also no need to wait for greater multilateral agreement on a financial transactions tax. Financial transactions taxes have long been implemented by individual countries, including those where there are major financial centres such as the UK (existing stamp duty), France, Ireland, Italy, Hong Kong, Singapore, South Korea, Switzerland, China, India, and elsewhere.

11. Other tax and miscellaneous changes

Review of corporate tax reliefs

In January 2019, HMRC published its 'estimated costs of tax reliefs'. This provides broad estimates as to the revenue foregone from the principal tax reliefs - those which they believe are worth over £50m. The sum of the 115 principal reliefs listed equalled over £400bn in 2018-19, with a further £690m listed under 80 'minor reliefs'.

It has been suggested that one of the reasons why their value has increased over time is due to the relative ease of enacting tax reliefs and the low level of scrutiny they subsequently receive. This point was made by the Office of Budgetary Responsibility, who address tax reliefs in the 'Revenue Risks' section of their Fiscal Risks 2019 report. The OBR point out that "in some instances, they are used as disguised and non-transparent alternatives to conventional public spending, getting far less scrutiny as a result."

The next Labour government will conduct a review of corporate tax reliefs, as committed to in our manifesto, with a target of reducing them by £4.3bn. The review will assess the hundreds of corporate tax expenditures which make up some of the billions forgone through tax expenditures and structural reliefs by the UK every year.

The review will be conducted by the Treasury. It will be informed by an expert panel which will invite representatives of HMRC, the Office of Tax Simplification, the National Audit Office, and external stakeholders including trade union representatives, business organisations and taxation experts such as the CIOT, AAT and ICAEW.

The review will examine the body of corporate tax reliefs for its effectiveness against their stated aims and compared with alternative policy measures to achieve these aims. It will also seek to ensure stronger transparency and accountability concerning the creation and maintenance of corporate tax reliefs. It will not include major structural reliefs such as the personal allowance.

Full details can be found in 'Labour's Review of Corporate Tax Reliefs'.

Labour's Fair Tax Programme

A Labour Government will enact the most comprehensive tax transparency and avoidance programme ever enacted in government. This will be a powerful package of legal reforms, resourcing changes, and government-wide reviews and inquiries – all with the aim of changing the culture that surrounds taxation, so that tax is viewed as a contribution and tax avoidance is not tolerated.

It includes firstly a set of measures to improve transparency, including through public registers, an inquiry into the finance sector, an Excessive Pay Levy, and greater scrutiny of MPs. The second part provides stronger law, enforcement, and support for HMRC. It commits to clamping down on enablers of tax avoidance and evasion, as well as avoiders and evaders themselves, and to transforming the power and resources of HMRC. Eliminating legal loopholes is a third priority,

and the fourth part focuses on cross-border action on avoidance and evasion, including action on tax havens and coordinated action on tax justice.

We have costed some of these measures but erred on the side of caution. We have not assumed income from measures that could well raise significant revenue, such as the scrapping of 'non-dom' status, because we believe tax policy should be evidence-based and we currently lack the evidence base to make precise predictions about potential yields. In other cases, as with the Excessive Pay Levy, where there is significant uncertainty about behavioural response, we have also erred on the side of giving no costing.

Those policies we have estimated yields for are:

- More targeted audits by HMRC
- Offshore Property Company Levy

For background assumptions and methods for arriving at these yields, along with the full policy proposals, see 'Labour's Fair Tax Programme'.

Marriage Allowance

In their October 2019 'Estimated cost of non-structural tax reliefs' HMRC forecast £535m of Marriage Allowance to be claimed under the system which allows "the transfer of 10% of the tax free personal allowance between couples who are married or in civil partnerships". Uplifted to account for forecast earnings growth.

Bank Levy

The Office for Budget Responsibility's 'Policy Measures Database' from March 2019 estimates the cost of the Conservatives' 2015 cuts to the Bank Levy at £1,292m in 2023-24.

Inheritance Tax

Labour will reverse George Osborne's Inheritance Tax cut which, according to reports was described by Treasury analysis as being "most likely benefit high income and wealthier households". The Spring Budget 2017 (Table 2.2) estimate for its cost rose to £725m in 2021-22, which is uprated for nominal GDP growth as used in the Office for Budget Responsibility's 'Policy measures database' (March 2019).

Second homes tax

This is an annual levy on second homes that are used as holiday homes equivalent to 200% of the current council tax bill for the property. Based on the following sources and work from the House of Commons Library we estimate it could currently raise up to £560m a year:

- The 2018 council tax database published by the Ministry of Housing, Communities and Local Government
- Council tax levels for 2018-19 published by the Ministry of Housing, Communities and Local Government
- Microdata from the English Housing Survey

The council tax database indicates that as of October 2018 there are 251,654 properties classed as 'second homes' for council tax purposes in England

Based on data on (a) the number of second homes by council tax band in each local authority area and (b) the level of council tax payable by council tax band in each local authority area, we can estimate that a levy equivalent to 200% of the current council tax bill for the property could raise up to £800m a year.

Using the English Housing Survey microdata for 2013/14 (the latest year for which granular data is available), we are able to estimate the split between the two main groups likely to be captured in the council tax database – those with second homes as holiday homes, and those with second homes for employment purposes - and estimate that up to 70% of second homes are used as holiday homes .

Applying this percentage to the initial revenue figure yields a final estimate of around £560m per year which has been reduced by 25% for uncertainty and behavioural change then adjusted for inflation.

VAT on private school fees

According to the Oxford Economics report 'The Impact of Independent Schools on the UK Economy', Independent Schools Council schools received £7.83bn for "core school operations" in 2017. Applying the same assumptions on elasticity of demand as in our funding for new state school places (Section 2) suggests a reduction in tax base to around £7.4bn and therefore a potential tax yield of just under £1.5bn.

As VAT-payers, private schools would be able to reclaim VAT on VAT-able expenses, but most outgoings relate to staff. Figure 11 of the Oxford Economics report suggests £189m of taxes on school purchases were paid, which is an upper bound on the VAT that could be reclaimed. Deducting that and adjusting upwards for the fact that only 85% of independent schools are ISC schools gives a potential yield just over £1.5bn for 2017 which is adjusted for school fee inflation in 2018 and 2019 and inflation forecasts going forwards.

Reforming funding for research and development

Both the Institute for Innovation and Public Purpose and the IPPR have been critical of the effectiveness of blanket tax reliefs for research and development. The IPPR concluded[40] that

"A small number of large corporations reap 95 per cent of the patent box and 80 per cent of R&D tax credits. We estimate that between 57 and 80 per cent of R&D tax credits are deadweight, subsidising spending which would have happened anyway, at an annual cost of £1.8–1.9 billion. The savings from phasing down these schemes should be redirected for direct support to R&D through Innovate UK and the National Investment Bank"

Similarly, the IIPP critiqued R&D tax credits[41] saying:

"Qualitative studies of the effectiveness of the R&D tax credit provide little evidence that it played a part in the decision to engage in R&D…Direct funding should be the most important form of state investment in R&D as it creates real additionality. Direct funding structured through a truly mission-oriented framework of broad-based interdisciplinary innovation is the optimal way an industrial strategy should be deployed."

Both have recommended the abolition of the Patent Box. Labour will gradually move to a system of more direct funding, with investment provided through our National Transformation Fund and our independent National Investment Bank's innovation arm. As a result Labour will phase out R&D tax credits for large corporations and the Patent Box over this Parliament (while keeping the R&D tax relief SME scheme). Savings from this are estimated from HMRC's 'Estimated costs of non-structural tax reliefs' spreadsheet.

[40] Jacobs, M et al (2017) 'Industrial Strategy: Steering structural change in the UK economy', IPPR
[41] IIPP (2018), 'A Mission-Oriented Vision for Innovation-Led Growth'

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