

# IPPR'S MANIFESTO FOR CHANGE

## GENERAL ELECTION 2017

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### INTRODUCTION

As the UK prepares to return to the polling stations on 8 June it is clear that Brexit will dominate much of the public debate over the next five weeks, as the negotiations and the aftermath will dominate British politics over the next five years.

But the UK faces serious challenges that whoever is elected in June must tackle alongside getting the best Brexit deal. Half of all UK households have seen no meaningful improvement in their incomes for more than a decade; our NHS faces unprecedented challenges from an aging population and the crisis in social care; and our housing system has consistently failed to build anywhere near the number of new homes we need.

*How will our new government respond to these unprecedented challenges?*

At IPPR, we are setting out a series of practical and progressive recommendations for change. We hope they will be useful to all political parties in setting out how they will deliver the kind of change Britain needs to deal with the mounting pressures it faces.

Many of these ideas will be controversial, but in policy terms more of the same from our political parties simply won't be enough for the UK. Throughout this election and into the coming parliament IPPR will continue to find the evidence, and make the case for real progressive change. Here we set out some first steps towards achieving this change that all political parties could sign up to.

- Negotiate a 'progressive Brexit' that prioritises close UK-EU trade links in goods and services, maintains employment and consumer rights, and develops a new UK-EU agreement that gives the UK greater control over migration from the EU.
- Create a hypothecated 'NHS tax' by raising income tax and national insurance for the highest-paid to provide a further £3.9 billion a year to tackle the funding

crisis in the NHS, and reforming pensions tax relief to deliver a £3 billion a year cash boost to social care.

- Guarantee a universal entitlement to free childcare for all those aged between two and four, and greater paternity rights for working dads;
- Introduce a new Skills Levy to boost employer investment in skills and lifelong learning, and a youth guarantee for 18–21-year-olds that offers education, training and intensive support to get into work.
- Develop an active, place-based industrial strategy with powers devolved to strong regional and sub-regional institutions.
- Introduce a five-year ‘family tenancy’ for renters, and give local areas the power to build more homes by devolving a share of stamp duty and freeing councils to borrow to build.

These are just some of the ideas we are putting forward: the following pages contain many more.

Any policy programme for the next parliament must seek to do five key things if we are to confront some of the challenges we face.

1. Negotiate a progressive Brexit.
2. Create an economy that works for all.
3. Tackle the crisis in health and care.
4. Respond to the housing crisis.
5. Protect our environment.

This publication will address each of these objectives in turn.

## 1. NEGOTIATE A PROGRESSIVE BREXIT

At IPPR, we have argued that the UK must leave the European Union, but should do this in a way that puts people's jobs and living standards first. This means negotiating a 'progressive Brexit' deal that achieves the following.

- **Secures the best possible access to the single market**, including continued zero tariffs on goods, alignment of product standards, and market access for key sectors such as finance and professional services.
- **Develops a new UK-EU agreement on migration that seeks to gain greater control over EU migration rules** by, for instance, restricting free movement to workers in certain key sectors or occupations.
- **Maintains EU-derived employment and consumer rights in full**, including laws related to agency workers' rights, non-discrimination rules, maternity and parental rights, and the Working Time Directive, to ensure that these rights are not watered down post-Brexit.
- **Secures the UK's environmental and climate change commitments** and creates strong enforcement mechanisms to ensure that government sticks to its target as we transition to a low-carbon economy.
- **Protects EU nationals already living in the UK and UK nationals already living in the EU**, by granting deemed leave to EU nationals living in the UK and protecting their residency, work, social security and healthcare rights, as well as the free movement rights of their family members.

## 2. CREATE AN ECONOMY THAT WORKS FOR ALL

Britain is the sixth-largest economy in the world. Over the last three years the economy has been growing at more than 2 per cent per year, and national income is now around 7 per cent higher than it was in 2008. Yet this picture of top-line success is just that: one of an economy that is succeeding at the top, but facing deep troubles below the surface. The economy is not working for the majority of the population, and the proceeds of growth have not been fairly shared. The UK must confront this challenge over next decade. IPPR will be developing policies to help achieve this throughout the next parliament. As a first step, there are some simple, commonsense things that the next government can do.

### Fairer taxes

The UK's public finances are not sustainable. As the Office of Fiscal Responsibility has revealed, on current plans the gap between tax revenues and public spending is set to widen to over 3 per cent of GDP by 2030, mainly due to the pressures on spending arising from an ageing population. By 2050 that gap will be as large as it was at the height of the financial crisis. These pressures are now becoming too obvious to ignore in the NHS and social care, in education, in local government, in the prison service, in welfare and other areas. Further public spending cuts are not feasible without causing unacceptable damage to the social fabric of the country.

All political parties should therefore acknowledge that taxes will have to rise in the next parliament. It is dishonest to pretend otherwise, or to claim that further unspecified spending cuts or 'efficiency savings' can close the fiscal gap. But it is also vital that tax rises are progressive, aimed at those most able to pay. The following are among the potential tax-rises that IPPR proposes.

- Create a hypothecated **NHS tax worth £3.9 billion to help meet the funding crisis in our health system**. This would be made up of a 1 per cent rise in the higher rate of income tax (raising £1.7 billion), a 1 per cent rise in the rate of employee national insurance above the upper earnings limit (raising £1.3 billion) and extending employee national insurance to workers above the state pension age (raising £0.9 billion).
- Insurance premium tax: **the tax rate on insurance premiums should be raised from 12 to 17 per cent, as part of a longer-term plan to align this rate with VAT, raising £2.1 billion.**
- Pensions reform: the government should continue to tackle imbalances in the tax treatment of pensions, aiming **to raise a further £3 billion from measures such as capping the tax-free lump sum and reducing the earnings threshold after which the pension contributions annual allowance is tapered away.**
- Corporation tax: **reverse the plan to cut the main rate of corporation tax from 19 to 17 per cent in 2020/21, raising around £2 billion per year.** This still leaves the UK with a rate of corporation tax that is 9 percentage points

lower than it was in 2010, and is one of the lowest among advanced economies.

- The government should also adopt IPPR's '**growth-first model**' of **business rates devolution**. Current proposals mean that the richest councils stand to receive excessive rewards, while authorities most in need of economic growth will receive the weakest incentives. Our alternative would mean that no matter the size of a local authority's business rates, they will always see their income from the business rates retention scheme grow at the same rate as their local business collection.

### Credible fiscal rules

The government's current fiscal rules make no distinction between borrowing for productive investment and for current spending. It is quite right that borrowing for productive investment (such as infrastructure) should be paid for over time, so that all the generations who stand to gain from new roads and hospitals contribute to their cost – not simply those paying taxes when the investment is made. With interest rates at around 1 per cent for 10-year gilts, public borrowing for investment (in both infrastructure and wider spending) is a very good deal, and is crucial to raising productivity. It will stimulate the economy and crowd-in private investment. There should therefore be no target for net public debt in general: instead, we make the below proposals for the next government.

- Target a **balanced budget for current spending (including interest on debt) over the economic cycle**, allowing that budget to rise when growth is weaker and be cut when growth is stronger.
- **Remove public investment from the borrowing target altogether.**
- **Set a target for public investment of 3 per cent of GDP over the next parliament.**
- **Review these rules when the cost of 10-year gilts exceeds a target threshold**, or if annualised GDP growth falls below or increases beyond a target range.

### An active, place-based industrial strategy with powers devolved

The UK has a serious productivity problem. We have lower productivity than most of our major competitors, and productivity growth has stalled since the financial crisis. This is the root cause of our living standards crisis, which has seen average wages stagnate over the last decade. By 2022, real average wages will still be below what they were in 2007.

The UK's productivity problem needs to be addressed through a more active industrial strategy. This should be aimed not just at ensuring the UK is a world leader in innovation and advanced technology, as recent efforts have been, but at improving productivity across the economy as a whole. The low productivity problem

lies primarily in the large number of firms, particularly outside London and the south east of England, that are not operating with the most up-to-date technology and which have not innovated in their methods of service delivery and production. Successive governments have also failed to capitalise on the economic assets that sit outside of London, and must recognise the growth potential of cities and towns across the country. As part of this industrial strategy, IPPR makes the following proposals for the new government.

- **Replace the Apprenticeship Levy with a wider Skills Levy** on employers with more than 50 workers. This would raise £2.5 billion extra for skills, of which £1.4 billion could be used to boost employer investment in the skills system, support lifelong learning, and allow low-productivity businesses with weak demand for skills and technology to access advice and support on workplace innovation.
- Use the remaining **£1.1 billion from the Skills Levy to form a new Regional Skills Fund**, devolved according to local need, to invest in high quality, specialist vocational training.
- **Increase public spending on research and development (R&D) from 0.5 per cent to 1.0 per cent of GDP**, to match leading countries such as the US, Germany and South Korea.
- **Expand Innovate UK's remit** to cover the funding of innovation in workplace organisation, job design, leadership and management.
- **Use the purchasing power of the public sector** through clear targets for UK jobs on all public procurement, and a target for the use of renewable energy to support the growth of the green economy.
- Support the growth of the green economy through **public sector led development of low carbon energy and continued investment in energy efficiency**.
- **Devolve economic and fiscal powers to regional and sub-regional institutions**. The government should enable combined authorities to use their unrivalled position to support its industrial strategy, and should introduce regional bodies – such as a Council of the North – to provide an effective co-ordinating function. Economic policy interventions – from skills to trade and investment – should then be co-ordinated and mediated through a ‘deals’ process between the three tiers of government.
- **Rebalance spending on infrastructure, R&D and other public spending on economic affairs that are currently skewed towards London and the South East**, and in particular pledge investment in an east–west HS3 connection across the north of England.

### A more responsive migration system

The immigration system should be redesigned to meet Britain's economic and strategic needs. At present this is not the case because UK immigration policy is predicated on a single aim: to reduce levels of net migration. Our migration policy

needs to be more responsive and distinguish between different types of migrants. IPPR proposes that the next government do the following.

- **Drop the one-size-fits-all net migration target** and set individual targets for different flows of migration, including non-EU workers, non-EU family migrants, and refugees.
- **Remove students from the target-based system altogether**, as they are temporary migrants.
- **Devolve immigration policy** to make it more responsive to the local economy, to levels of local public support, and to local capacity to absorb immigrants. Regions and nations would set the rules of immigration policy and the numbers of migrants coming into their area within the overall national target. The Home Office would continue to have control over the issuance of visas, border controls and enforcement.
- Encourage people who come to work and live in this country to integrate into our communities by **making visa extensions for skilled workers conditional on improving their English language skills, and offering low-income migrants loans to cover the high cost of applying to become a British citizen.**

### Support for the next generation

Over 800,000 young people are not in education or work. Too many do not have the skills they need for work. To make the most of the talents of our young people, we offer the below proposals for the new government.

- **Establish a youth guarantee for 18–21-year-olds** that offers access to education or training, plus intensive support to find work or an apprenticeship, with compulsory paid work experience for those not earning or learning within six months. Funding for this should come from ending entitlement to child benefit and child tax credit at the end of the academic year in which a young person turns 18.
- Encourage the **growth of apprenticeships at level 3 and above**, with the ultimate aim of all apprenticeships progressing to at least level 3.
- **Phase out level 2 apprenticeships for 16–18-year-olds**, and replace them with a pre-qualification programme designed to meet the specific needs of younger learners and help them progress to further study or full level-3 apprenticeships.
- **End unpaid internships with a ban on unpaid placements lasting more than four weeks**, and allow employers to use their Skills Levy funds to offer **high-quality placements for graduates.**

## Support for families in work

Families in which both parents work have higher living standards and lower levels of child poverty. More should be done to create conditions that enable parents to work and earn enough to support their families. Giving mothers and fathers the opportunity to work and look after their children in their early years is key. There are a number of things government could do to support this.

- **Guarantee an affordable childcare place for all parents of preschool children from the age of one.**
- **Offer a universal entitlement to free, part-time, year-round care** for all children aged between two and four, building on the free entitlement to 30 hours. This would cost £2 billion a year and could be paid for by the increase in the tax for insurance premiums.
- **Devolve funding for childcare** provision, including free entitlements, to combined authorities so they can commission and deliver the types of childcare that their community needs.
- Give working fathers the chance to play a bigger role in early parenting, through an **entitlement to four weeks of leave following the birth of their child, as well as paid time off for antenatal appointments.**

### 3. TACKLE THE CRISIS IN HEALTH AND CARE

The NHS is facing one of the most challenging periods in its history. Demand is growing, but the level of investment is not keeping up. Meanwhile, the pressure on social care funding is even more acute: many councils are already having to raise eligibility thresholds and make large cuts to other parts of their budgets in order to cover the shortfall. As a result, there is a significant need for reform across the service, including integration between health and social care, hospital reconfigurations to move people into the community, and preventative initiatives to prevent ill health.

#### Invest in health and social care

To begin to tackle the crisis facing our NHS, the government should do the following.

- **Establish a new ring-fenced ‘NHS tax’**, to be funded through a 1 per cent rise in the higher rate of income tax (raising £1.7 billion), a 1 per cent rise in the rate of employee national insurance above the upper earnings limit (raising £1.3 billion), and extending employee national insurance to workers above pension age (raising £0.9 billion). This should be used to help reduce pressures on the service, as well as properly funding the reform agenda to ensure that we have an NHS fit for the 21st century.
- **Reform pensions in order to raise £3 billion a year to plug the social care funding gap** (estimated at £2.8 billion) and **extend social care provision to low income people with moderate care needs** so that they can live at home independently. This social care entitlement would cost £1.6 billion a year, paid for by scrapping the planned 2 per cent cut in corporation tax.

#### Greater focus on mental health

Greater focus must be placed on mental health. One in four people in the UK experience a mental health problem each year, and three children in every classroom are estimated to have a clinically diagnosable mental health condition. There needs to be a greater focus on early intervention, as well as providing more support for people with mental health conditions living in our communities. Political parties should make the following commitments:

- Guarantee all secondary schools **access to at least one day per week of on-site support from a mental health professional**.
- **Ringfence funding allocated to CCGs for children and young people’s mental health**, to prevent it from being used to plug gaps in health funding elsewhere.
- **Set up a new programme to train teachers to be specialists in mental health and support children with complex needs**, allowing more preventative and effective multi-agency working.

- Ensure mental health services support people within their communities, including by **funding a further 300 places on the Think Ahead programme** which trains graduates and career-changers to become expert mental health social workers.

### Help people with health conditions stay in work

The number of people out of work as a result of physical or mental health conditions remains persistently high, with mental health conditions now accounting for half of sickness benefit claims. Not enough is being done to prevent people from leaving work and moving onto sickness benefits in the first place. More needs to be done to help people stay well in work and support them return to work when they fall ill. This should include three specific commitments.

- **Introduce 'fit pay', a more flexible form of sick pay**, to keep more people in work. Fit pay would provide an income-smoothing payment for those who have to temporarily reduce their hours as a result of physical or mental health conditions, and support people back into work if they do go off sick.
- Put a **legal duty on employers to engage with employees on statutory sick pay**. As a minimum, this should include agreeing a return-to-work plan after four weeks, and holding regular catch ups.
- **Increase the period covered by statutory sick pay (SSP) from 28 to 52 weeks**, with employers liable for the second six months of SSP payments if they have not co-produced a return-to-work plan with their employee.

## 4. RESPOND TO THE HOUSING CRISIS

There are deep and complex problems facing housing in England. These problems have taken hold over a long period of time, and their consequences are clear: too many people do not have a home that is decent, affordable and secure. Most attempts to respond to these huge challenges have been short-termist and reliant on an overabundance of small-scale initiatives. IPPR argues for a different approach. Over the next parliament the government must take the following actions.

- **Give combined and local authorities more power to deliver the housing supply** they need by lifting National Policy Planning Framework land use restrictions on brownfield; pooling current funding streams; allowing stamp duty retention on new build properties, more prudential borrowing, and more flexibility over council tax to enable local authorities to top-up funding and bring empty sites and homes into use.
- **Towns and cities with an appetite for growth should be given new powers to unblock stalled sites** so that land can be used for housing, including designating 'new homes zones' that fund development by capturing the resulting increases in land values.
- **Increase security for families by introducing a five-year family tenancy** with a five-month notice period.
- Improve the quality and value-for-money of private rented properties by **introducing 'something for something' deals at the local level between local government and local landlords.**

## 5. PROTECT OUR ENVIRONMENT

In the context of Brexit and the big social and economic challenges facing this country, tackling climate change and protecting the environment could be pushed to one side. This must not happen – the costs of doing so are too high. The new government must commit to the following actions.

- Meet the requirements of the Climate Change Act and associated carbon budgets.
- **Tackle air quality with:**
  - **a new Clean Air Act**
  - a nationwide diesel scrappage scheme **that supports the transition to cleaner vehicles and provides credits for shared transport**
  - reforms to the VED regime to disincentivise diesel cars
  - a mobility transition plan **to drive the transition toward a cleaner, shared and more efficient transport system.**
- **Support the growth of low-carbon energy** by redirecting some subsidies into public ownership of new nuclear and offshore wind farms, removing the moratorium on onshore wind farms, and replacing the capacity market with a strategic reserve.
- **Replace the current energy efficiency scheme with a new ‘Help to Heat’ programme** that provides assessments to low-income households, and subsidised energy efficiency improvements through a low-cost loan.
- **Support local authorities to roll out heat networks** to enable the decarbonisation of heat.

## FISCAL IMPACT OF OUR KEY PROPOSALS ON THE GOVERNMENT'S DAY TO DAY SPENDING BUDGET

Cost of proposals		Revenue from proposals	
Additional NHS spending	-£3.9 billion	'NHS tax'	£3.9 billion
Additional social care spending	-£2.8 billion	Reduce pension tax relief for high earners	£3.0 billion
Universal free childcare	-£2.0 billion	Increase Insurance Premium Tax	£2.1 billion
Regional Skills Fund	-£1.1 billion	Skills Levy	£1.1 billion
Social care entitlement	-£1.6 billion	Corporation tax	£2.0 billion
<b>Total</b>	<b>-£11.4 billion</b>	<b>Total</b>	<b>£12.1 billion</b>

Source: IPPR analysis and modelling on an annual basis