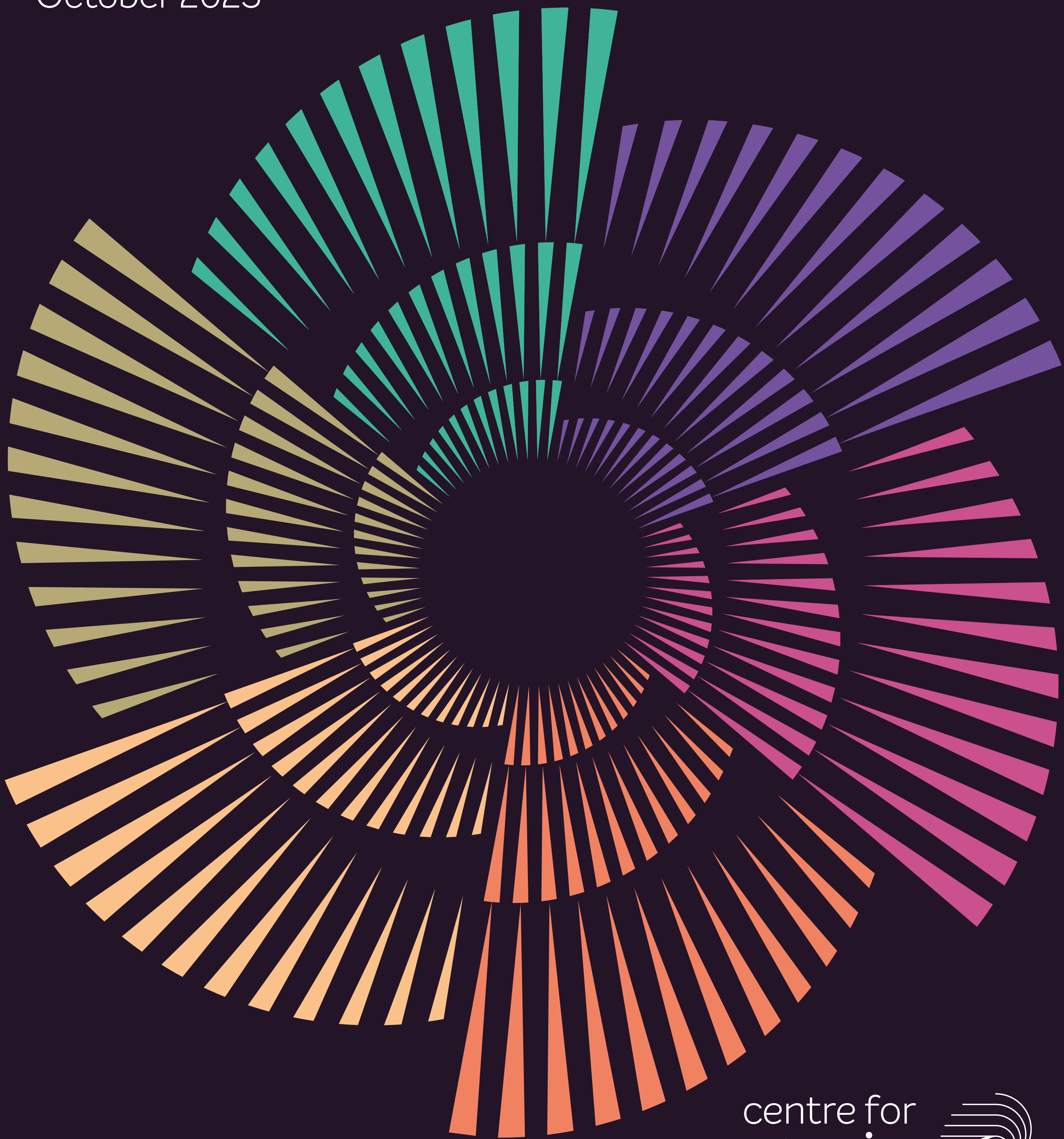
Funding fair growth

How to transform the UK economy

October 2023



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Executive summary

The UK's crumbling public services, stagnant productivity and earnings growth, ill health, and entrenched regional, wealth, and income inequalities have culminated in the creation of a new dominant economic narrative: the UK economy is broken, and no longer fit for purpose. But our politicians appear afraid to admit that turning the tide on our long-run economic stagnation will require considerable levels of public investment, paired with bold, ambitious reform of our public services. Stemming the outflow of workers in the health and education sectors, repairing and enhancing our decaying public infrastructure, reforming and then expanding affordable childcare provision, improving adult education and skills, and supporting the decarbonisation of our industry and infrastructure will all require higher levels of public investment, and we have yet to hear how and why a plan to fix the nation without such investment could be credible.

This report looks to inject some realism into the public debate on the state of our public finances. It sets out the level of additional spending that will be required for the UK state to simply stand still, based on shifting demographic and economic factors, as well as a suite of potential policy options which a future government could introduce to drive transformative economic change.

It explores several options for how to feasibly raise additional revenue, including by recalibrating the tax system to encompass new forms of taxation on wealth. It also sets out potential reforms that could be made to the 'rules of the game' – namely our current fiscal rules, as well as the frameworks for spending and taxation in local government. Collectively, our analysis and recommendations present a bold package of reform that could help to fund an ambitious economic agenda while also maintaining budget sustainability and long-term economic stability.

As the required reforms are substantial, it is vital that they can command broad-based public support. For this reason, the Centre for Progressive Policy (CPP), in partnership with the National Centre for Social Research (NatCen), convened a Citizens' Jury consisting of a sample broadly reflective of the UK population over the summer of 2023 to test what might be electorally palatable.[1]

Over several weeks, the Citizens' Jury was tasked with deliberating on various potential avenues for reform around wealth taxation, excess profit taxes, fiscal rules and fiscal devolution, and the extent to which these options seem fair and economically viable. The collective decisions reached by Citizens' Jury have helped to inform our final policy recommendations. The full findings from the jury are contained within Chapters 3 and 4 of this report; we hope that they will help leaders to navigate the thorny issues of taxation and borrowing.

1 NatCen adapted the Citizens' Jury model for the requirements of this research project. For a discussion of the Citizens' Jury type approach in this research project, please see Appendix A: 'A Citizens' Jury: rationale and methodology'.

Public spending must rise to maintain our services and move the UK onto a higher growth trajectory

Changing demographics and rising costs mean that UK public spending will need to rise by nearly £142bn per year by 2030 in real terms for public services to stand still.

- **New CPP modelling based on changing demographics, wages, productivity and income predicts that public spending will need to grow by 1.56% a year** in real terms between now and 2030.
- **These increases are driven primarily by spending on health, social care and social security payments, including pensions.** We project that public spending on health and social care will need to rise by at least **£50bn per year by 2030** to meet demographic and cost pressures, while spending on social protection payments such as pensions and Universal Credit will need to increase by **£39.5bn per year by 2030** over the same period. There may be some scope for public spending cuts, like removing the triple lock on the State Pension, although there is substantial uncertainty about how much additional revenue this would bring.
- **This projected increase is large but will not be enough to fix the broken system.** Additional costs are driven largely by higher demand for state pensions and health and social care services due to an ageing population. The increase does not include the capital injection required to remedy over a decade of under-investment and is unlikely to boost the UK's economic potential. Instead, it is the minimum that CPP projects the government will need to spend just to stand still, without making the necessary investments to shift to a preventative health system, enhance human capital and move towards net zero. Investing in more transformational reforms to improve the quantity and quality of economic growth would come at an additional price.
- **While tax revenues are also projected to rise, they will not be enough to improve our fiscal position.** The budget deficit, as a share of GDP, is not projected to fall. In 2022/23 the budget deficit was £137bn – equivalent to 5.4% of GDP (£122bn in 2021–22 prices). Based on expected values for GDP, demography and wages, CPP modelling suggests that such a large deficit will be the norm over the next six years – amounting to **£135bn in 2021–22 prices**. While it is neither necessary nor realistic to bring the deficit to zero within the next parliament, it is unsustainable to maintain such large budget deficits over the long term. Either tax rises or spending cuts will be necessary to put the public finances on a healthier footing. We calculate that in order to bring the deficit down to 2.8% of GDP in 2030, tax as a proportion of GDP would need to rise from 36.5% today to 38.8% in 2030.

Spending increases need to be allied with a proactive set of policies to drive productivity and stimulate fair growth rather than simply fund services as they are

CPP's package of priority policy measures to help stimulate fair economic growth over the next parliament would cost an additional £96bn, equivalent to around £19bn a year over and above CPP's estimated 'standing-still deficit'. This package is based on CPP's existing research and includes the following:

- **Gearing the workforce towards net zero emissions and boosting growth** by investing in a green industrial policy, which would cost £38.6bn over a five-year parliament or **£7.7bn a year**. This includes investing in a national wealth fund and a national fund to retrofit UK housing stock, as the Labour Party has already committed to. CPP recommends that a significant portion of this funding is invested in human capital – training and reskilling local populations to make the UK a more attractive place to invest and to ensure that people are able to benefit from the move to a lower-carbon economy.
- **Taking preventative action through early years services and the education system to increase opportunity for disadvantaged children**, at an average cost of **£5.5bn per year** over the next parliament. This includes increasing investment in the current Family Hubs programme to improve access to services, increasing the number of counsellors in schools to deal with the growing mental health crisis and increasing pupil premium funding, which a 2021 evaluation found was successful in reducing the attainment gap between those on the premium and those who were not.
- **Extending access to affordable childcare for parents on low incomes to improve access to the labour market**, at a cost of £19.4bn over five years or an average of **£3.9bn per year**. This would include covering up to 95% of the cost of additional hours for parents on low incomes, building on policies announced in the 2023 Spring Budget, and would go further by extending access to childcare for low-income parents not in work.
- **Reducing child poverty by removing the two-child limit on Universal Credit and child tax credit**, at a cost of around **£1bn a year**. Research by the Child Poverty Action Group has found that in 2023, child poverty will cost the UK state £39bn.[2] This is through a combination of a higher spend on public services and the fact that adults who grew up in poverty as a group have lower productivity and higher unemployment. Removing the two-child cap, which now impacts around one in ten UK children, would lift a quarter of a million children out of poverty.

2 Hirsch, D. (2023), *The cost of child poverty in 2023*, Child Poverty Action Group, https://cpag.org.uk/sites/default/files/files/policypost/Cost_of_child_poverty_2023.pdf

- **Tackling poor health and rising inactivity in the labour market** by restoring funding of the public health grant to its 2015/16 peak, at a cost of **£0.9bn per year**. The public health grant provides a highly cost-effective means of raising population health levels by investing in broader local health systems, with a 2019 study by the University of York finding that every £1 had the same health benefits as £3 spent by the NHS.

Our Citizens' Jury's take on the fiscal reform options facing government

Our Citizens' Jury expressed some support for certain types of wealth taxation. They favoured a 'millionaires' tax' – a one-off tax levied on individuals with net assets worth over £1m – and considered equalising capital gains tax with income to be fair and sensible, but they were very hesitant to reform inheritance tax.

- In response to public spending pressures, we asked a the Citizens' Jury to consider wealth taxes in the round and three specific and viable options for reform: a millionaire's tax, capital gains equalisation and replacing inheritance tax with a lifetime gifts receipts tax. The jury had different views on which wealth taxes they thought were fairer:
  - **A small majority selected the millionaires' tax as the preferred option.** This was due to its suitability for dealing with acute economic crises like the Covid-19 pandemic or the Russo-Ukrainian War, and the perceived minimal impact it would have on the people who had to pay it. Nevertheless, the short-term nature of this additional revenue, and its consequent inability to counter ongoing underfunding of public services, was a major reservation for participants.
  - **The second most popular wealth tax was the proposal to equalise capital gains with income tax.** Here, participants regarded everyone being subject to the same rate of tax on their earnings – income or sale of assets – as fair and sensible. Nevertheless, some in the jury argued that assets represented a lifetime of hard work and financial discipline, and that punishing or minimising these achievements would be unfair.
  - **Only 8% of participants believed that replacing inheritance tax with a lifetime gifts receipts tax was the fairest alternative.** The key reason presented by participants was that individuals should have the right to pass on whatever wealth they see fit, without it being subject to tax. However, for a handful of participants the lifetime gifts receipts tax was preferable to the other two options because it might prevent the sort of tax avoidance that undermines inheritance tax.

The jury expressed an appetite for reforming the current fiscal rules to make them more flexible and pragmatic as well as being broadly supportive of greater fiscal devolution.

- **Most of the jury believed that the government should be more directly accountable for the impacts of their spending decisions** and questioned the utility of fiscal rules as a mechanism for this accountability, given that they are so routinely flouted.
- **Instead, many members of the jury wanted the government's fiscal rules to be more pragmatic and flexible** to accommodate changing economic circumstances. Many members expressed support for reforming fiscal rules to enable greater investment in public services, support initiatives to reduce inequality, increase green investment and deal with shocks from extraordinary events.

- **The jury expressed support for giving local governments greater powers over spending and taxation, as long as certain conditions are met.** The jury overwhelmingly favoured greater fiscal devolution as a means of strengthening local governments to become enablers of fair growth, with 84% saying they supported further fiscal devolution in principle.
- **The jury collectively developed five core principles they believed should underpin a future framework for fiscal devolution** – it must be responsive to the needs of local people; ensure local and national priorities are balanced; have clear accountability structures; have budget transparency and be open to public scrutiny; and rebuild capacity in local institutions to ensure a level playing field between areas.

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Recommendations for an incoming government

We will need to raise public spending significantly just to stand still, let alone if we are to introduce the transformational reforms to population health, adult education and childcare that CPP has identified as key drivers of fair growth. This means an incoming government will have to consider how to raise the tax base and how spending rules at national and local level can improve public investment. This trade-off – enhancing public investment at the cost of higher taxation – is one that the public understands. The 2023 British Social Attitudes Survey finds that when faced with a choice between increasing taxation and spending on 'health, education and social benefits', reducing taxation and spending, or keeping both the same, as many as 55% say that taxation and spending should be increased.[3]

CPP recommends that over the course of the next parliament, an incoming government take the following steps to promote fair growth and ensure fiscal sustainability:

3 This is similar to the 53% who expressed that view before the pandemic, in 2019, and much higher than the 31% in 2010, following the increases in taxation and spending implemented by the Labour government of 1997 to 2010.

Reform taxes to make the tax burden fairer and more sustainable in the context of an ageing population.

The first step towards shifting the burden of taxation onto income generated by assets should be to equalise capital gains tax with income tax, which it has been estimated could raise revenues by £10bn–20bn per year. This would help to ensure that work continues to be rewarded in a tight fiscal environment by ensuring that income from wealth – which is particularly concentrated at older ages – is treated the same as income from work. This shift to increase taxes on wealth has precedent in the US, where President Biden has suggested a 25% tax on all wealth over $100m.

£10bn–20bn

Equalising CGT with the tax paid on income from work, while abolishing many of the current exemptions, could raise £10bn–20bn per annum

To finance large one-off increases in public spending that would deliver tangible benefits, such as retrofitting the UK's housing stock to reduce carbon emissions and bring down household bills, the government should consider a one-off tax on individuals who have net wealth of over £1m. Based on calculations by the LSE Wealth Tax Commission this could raise £29bn per annum, and we envisage such a tax running for just two years. It would be administratively difficult but is less politically challenging than reforming inheritance tax and has the potential to raise substantial short-term revenue, so it should be part of the mix of potential measures.

Streamline tax reliefs, reviewing and removing reliefs that are costly and inefficient.

CPP estimates that over the course of the next parliament, around £8bn a year could be saved by removing such reliefs, such as capital allowances for oil and gas firms.

Redesign the UK's fiscal rules to support fair and sustained economic growth while increasing the role and accountability of the OBR (Office of Budget Responsibility) as an independent watchdog to bolster the UK's fiscal credibility. CPP recommends:

Extending the forecast horizon from five to ten years to avoid making bad policy for accounting reasons.

Enabling capital investment and public spending that significantly enhances fair growth to be funded from borrowing. Under CPP's proposed fiscal rule, policies could be funded from borrowing if:

- they make a significant positive contribution to economic potential[4]
- they have a net positive return over a ten-year time horizon
- they do not have a negative impact on groups in the bottom half of the income distribution
- their spatial impacts are in line with government ambitions to reduce geographical inequalities

Resourcing and mandating the OBR to cost manifestos for the main political parties ahead of the general election.

Increasing the accountability of the OBR to reflect its greater role through both increased visibility in parliament and greater scrutiny of its modelling.

Devolve 2% of income tax receipts to local government in England, allowing the highest tier of local government in any area to retain 50%, with a further 40% redistributed towards places with weaker economies and the remaining 10% used to invest in rebuilding local government capacity in lagging areas.

This would provide a significant revenue boost worth just over £461.9mn per annum for the West Midlands Combined Authority, while Greater Manchester and West Yorkshire would stand to gain around £363mn and £259.2mn a year, respectively. It would also help to ensure a level playing field by reasonably compensating poorer areas. Our modelling suggests that Blackpool, Kingston upon Hull and North East Lincolnshire, for example, would see initial revenue boosts worth £34m, £62.2m and £31.3m respectively, with over three-quarters of income coming from redistribution in each case.

4 While all public spending will boost GDP, we are interested in projects that boost the UK's productive capacity.

Devolve 2% of VAT and corporation tax to local government, over the course of the next parliament, using the model of retainment, redistribution, and capacity building, that we recommend for income tax.

Taken together with devolving 2% of income tax receipts, and based on current receipts, this could provide local government with a revenue boost worth around £11.8bn per annum, from the middle of the next parliamentary cycle. As part of this transfer of funds from the centre to local government, local governments will need to take on greater responsibility for delivering some public services currently delivered by the centre. An incoming government should, therefore, develop a plan for the role it envisages local government playing in the delivery of public services as part of its plans for the next stage for English devolution, within a broader programme of public service reform.

£11.8bn

Based on current receipts, devolving 2% of VAT, corporation tax and income tax receipts tax, this would provide local government with a revenue boost worth around £11.8bn per annum

Overhaul the system of local government finance in England.

- Offer every Combined Authority a simplified, long-term funding settlement similar to those offered to Greater Manchester and the West Midlands in their 'trailblazer' deals.
- Move the Local Government Finance Settlement (LGFS) from an annual to a three-year cycle for all local authorities.
- Consolidate existing and future local growth funding streams into a 'single pot' of revenue and capital funding, and enabling the consolidation of funds from other central government departments that have a positive impact on fair growth, e.g. Public Health Grant, Social Housing Decarbonisation Fund;
- Bring the competitive bidding model to an end.

Establish deliberative processes to inform possible routes towards greater fiscal devolution in England and the devolved administrations.

Citizens' juries and citizens' assemblies are two examples of deliberative methods that could feed into wider constitutional or policy review processes, building on the model of the Smith Commission on future devolution in Scotland in 2014 and the Silk Commission on devolution for Wales in 2011.

Timetable for reform

While some of our recommendations could be designed and implemented within the first 100 days or first year of the next parliament, this would not be the case for all. For instance, a one-off net wealth tax on millionaires could not be used on a repeat basis, so policymakers would want to be strategic about the timing of implementation.[5] Devolving 2% of VAT and corporation tax receipts may be better phased in after having initially devolved 2% of income tax receipts, to see whether there are any unintended effects of the policy and develop stronger safeguards as a result. CPP has set out a suggested timetable for implementing our tax and fiscal policy reforms over the course of the next parliament:

Table 1: Timetable for reform

Proposed policy	2024/25	2025/26	2026/27	2027/28	2028/29
Recalibrating the tax system					
Implement a one-off net wealth tax					
Equalise capital gains with income tax					
Review existing tax reliefs					
Implement tax relief reforms					
Reforming fiscal rules					
Implement reforms to enable borrowing for capital investment and public sending that significant enhances fair growth					
Extend the forecast horizon from five to ten years					
Resource and mandate the OBR to cost manifestos for the main political parties ahead of general elections					
Increase the accountability of the OBR to parliament					
Establish a modelling council to enable greater scrutiny of the OBR's modelling					
Delivering greater fiscal devolution					
Overhaul England's system of local government finance					
2% income tax					
2% VAT and corporation tax					
Deliberative processes for fiscal devolution					

5 No country has been successful at levying regular net wealth taxes – i.e. on overall estimated asset values – with the number of countries doing it in decline. However, a one-off retrospective tax may be feasible. For more detail see both discussion in Chapter 3 and Franklin, B. (2023), 'Funding fair growth: taxing wealth', CPP, 4 July, https://www.progressive-policy.net/publications/funding-fair-growth-taxing-wealth

Conclusion

Despite the expressed hopes of our politicians, reform without investment will not be enough to avoid significant degradation of public services. These services underpin our productive capacity and are core drivers of our growth potential as a country. If the next government is to make progress on reversing our economic stagnation, greater investment to rebuild the productivity capacity of the economy will be needed.

We have set out what an incoming government could – and we believe should – do immediately to signal that it is serious about getting a handle on the collapse of the British state, restoring the strength and stability of the UK economy and establishing a path to sustainable, long-term and fair growth.

This report presents a credible, wide-reaching plan to deliver higher levels of overall investment in a way that is fair and could command broad-based public support.

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Introduction

The UK economy is in a grim bind. The global financial crisis, the COVID-19 pandemic and the ripple effects of the Russo-Ukrainian war have laid bare the fragility of the country's economic system. The feeling that our public services no longer work has become etched into our national consciousness. Nearly a third of children in the UK live in poverty.[6] Real wages are lower today than they were in 2008.[7] Compared with our pre-2008 trend rate of productivity growth, we are 34% less productive today than we would have been had we continued on a similar trajectory.[8] The UK has experienced over a decade of economic stagnation.

This has led the main political parties in Westminster to put growth front and centre in their agendas, being the first of Sir Keir Starmer's five missions for an incoming Labour government as well as one of Prime Minister Rishi Sunak's five pledges for 2023. Yet recent forecasts suggest that economic growth will remain sluggish for several years to come.[9] High inflation and historically high debt interest payments are eroding the fiscal space the government has to invest in our economy and public services. The UK's ageing population and ill health, rising poverty, climate change and global security threats will likely increase pressure on public spending over the next parliament and beyond.

To meet public spending pressures, taxes are expected to rise, with the Office of Budget Responsibility (OBR) forecasting that the tax take will rise to 37.7% by 2027–28, based on the government's stated policy choices.[10] While this rate is high for the UK by historical standards, it is not unusual by international standards. Many of the UK's European peers, including Denmark, France, Sweden, Norway, the Netherlands and Spain, have a significantly higher tax take than 38% of GDP.[11]

While the UK faces many economic challenges, our continued decline is not inevitable. But avoiding it means rewiring our economic system around the principles of fair, inclusive growth to set the foundations for economic renewal. Delivering an ambitious programme of public service reform, with additional investment in areas such as population health, education and childcare, will enhance the supply side of our economy and raise productivity while helping to reduce structural inequality. An active industrial strategy centred around developing human capital, linked to a programme to enhance our physical, social and environmental infrastructure and delivered in partnership with local institutions wielding greater devolved powers, will breathe new life into regions and neighbourhoods that have suffered decades of drift and industrial decline.

> While the UK faces many economic challenges, our continued decline is not inevitable. But avoiding it means rewiring our economic system around the principles of fair, inclusive growth to set the foundations for economic renewal

6 Hirsch, *The cost of child poverty in 2023*.
7 Collinson, A. (2023) 'The labour market is in the danger zone'. Trades Union Congress (TUC). Available at https://www.tuc.org.uk/blogs/labour-market-danger-zone
8 Franklin, B. and Singh, T. (2023), *Fair growth: opportunities for economic renewal*, CPP, https://www.progressive-policy.net/publications/fair-growth
9 Bejarano Carbo, P. et al. (2013), 'UK economic outlook summer 2023', National Institute of Economic and Social Research (NIESR), https://www.niesr.ac.uk/publications/uk-heading-towards-five-years-lost-economic-growth?type=uk-economic-outlook '
10 OBR (2023), Public Finances Databank – August 2023: https://obr.uk/data/
11 OECD (multiple dates), 'Global Revenue Statistics Database', https://www.oecd.org/tax/tax-policy/global-revenue-statistics-database.htm

However, this report shows that significant levels of additional spending will be needed by the end of this decade for public services to simply stand still. Going beyond this – so that public services increasingly address drivers of growth and inequality – will likely require even higher levels of investment. Reform is hard to do without investment at the best of times. After a decade of austerity, where local government and many public services were cut to the bone, reform now needs to be coupled with significant spending commitments – first to revive public services to a basic level of functioning and then to enable them to deliver on their productivity-enhancing potential.

Yet both of the main political parties in Westminster have expressed their intention to reduce the overall tax burden over the coming years. This will require either another round of sharp spending cuts to already threadbare public services or the hope of an economic miracle. Without either of these, it is highly unlikely that such low-tax promises can hold.

This report explores the options available to an incoming government seeking to reverse the UK's economic stagnation and instead fund an ambitious policy agenda that restores growth and raises living standards. Only then can we hope to put the public finances on a sustainable footing. Our range of options covers two broad themes:

1. **Revenue-raising mechanisms:** how an incoming government might rebalance the UK tax base away from a dependence on worker incomes and towards different forms of taxation on wealth and unearned income.
2. **Rules of the game:** options for reforming the government's fiscal rules, and for improving the financial position of local governments, including through greater fiscal devolution.

To ensure that different options for reform are able to command broad-based public support, the Centre for Progressive Policy (CPP) has worked with the National Centre for Social Research (NatCen) to run a Citizens' Jury to explore public attitudes to the various options we have looked at. Featuring a sample of 39 citizens broadly reflective of the UK population, the Citizens' Jury spent over ten hours deliberating over the different policy options for funding increased public spending. This report contains the jury's findings, which helped to inform our policy recommendations.

The report is set out as follows:

- **Chapter 1: How much public investment do we need to maintain current standards?** This section explores how much additional spending is needed between 2024 and 2030 to maintain current levels of provision across public services, and how much taxes might need to rise.
- **Chapter 2: Getting the fundamentals right.** How might we shift the trajectory of the UK economy beyond one of stagnation and decline, towards one of growth and shared prosperity? This section sets out which areas an incoming government should prioritise for additional investment and reform in order to rewire the economy towards fair, inclusive growth.
- **Chapter 3: Delivering greater and fairer fiscal firepower.** This section provides a deep dive into possible revenue-raisers that an incoming government could consider, informed by findings from our Citizens' Jury.
- **Chapter 4: Changing the rules of the game.** This section explores potential avenues for reforming our fiscal rules and possible routes towards greater fiscal devolution, informed by findings from our Citizens' Jury.
- **Chapter 5: Policy recommendations.** Finally, we set out how an incoming government could fund a route to fair growth.

How much public spending do we need to maintain current standards?

1

Our society is ageing and getting sicker, with the old-age dependency ratio projected to increase in all areas of the UK between 2028 and 2043.[12] The Health Foundation has projected that the number of people living with major illness will increase at nine times the rate at which the working-age population is expected to grow, creating significant care and cost pressures.[13] Given the fact that health deteriorates in older age, and assuming the State Pension continues in something like its current form into the middle of this century, population ageing implies rising public spending – not just over the next parliament but over the next 40 years.[14]

This chapter sets out CPP's estimates of how much additional public expenditure would be required for the UK state to simply stand still: maintaining today's levels of service delivery over the period 2024–30. Our modelling takes into account the UK's changing demography, as well as broader historical trends relating to wages, incomes and productivity growth (see Box 1). We do not, however, model the impacts of any specific policy changes here. Investments to restore public capital stock like crumbling school buildings and to develop the capacity of the economy would need to come over and above the values projected below.

Box 1: Methods for projecting future public spending

Looking over the period since 1999, we relate changes in a set of explanatory variables, including wage growth, demographic change productivity and gross disposable household income, to changes in spending on different public services. We use those relationships to project how spending should evolve in the coming years, if it follows that historical relationship on average. For this report, CPP has projected public spending trends for the period 2023–30, including for the health and social care, social protection, and education sectors. The analysis draws on data from 1999 to 2022, and figures have been adjusted for inflation based on 2021/22 prices. Specifically for health, spending on research and development as a share of GDP was also included as an explanatory variable, to serve as a proxy for technological advancement, which is potentially a key determining factor of health spending. CPP government revenue projections also used GDP as an independent variable.

12 ONS (2020), 'Subnational population projections for England: 2018-based', 24 March, https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/populationprojections/bulletins/subnationalpopulationprojectionsforengland/2018based

13 Watt, T. et al. (2023), *Health in 2040: projected patterns of illness in England*, The Health Foundation, https://www.health.org.uk/publications/health-in-2040

14 OBR (2023), *Fiscal risks and sustainability: July 2023*, https://obr.uk/frs/fiscal-risks-and-sustainability-july-2023

The cost of standing still

Our projections suggest that to maintain current levels of public service provision, public spending will need to rise by around £142bn per annum by 2030.[15] This translates to about 1.56% growth in public spending per year between now and 2030 in real terms. The majority of this increase relates to spending on healthcare (£50bn) and social security (£39.5bn), owing largely to our changing demography and inflation-related cost pressures on wages and capital spending.

£142bn

Our projections suggest that to maintain current levels of public service provision, public spending will need to rise by around £142bn per annum by 2030

As well as projecting future public spending, we have also projected future government revenue (the vast majority of which is tax receipts). We used a similar method to that used for projecting public spending, exploring the historical relationship between total revenue and its macroeconomic determinants, including GDP, demography and wages (see Appendix B for more details on modelling). While there is substantial uncertainty about what revenue will look like up to 2030, our projections are helpful in providing an indicative but plausible scenario which, when combined with our projections for spending, reveal the likely scale of the public finance challenge facing the UK over the next parliament and beyond. In 2022/23 the budget deficit was £137bn, equivalent to 5.4% of GDP (£122bn in 2021–22 prices). Based on expected values for GDP, demography and wages, we project such a large deficit to be the norm over the next six years – with the deficit in 2030 still £135bn (with a potential range of between £90bn and £180bn).[16] Total revenue is projected to be over 40% of GDP throughout the period up to 2030.[17]

> Our projections for spending, reveal the likely scale of the public finance challenge facing the UK over the next parliament and beyond

It is unsustainable to maintain such large budget deficits over the long term, implying that either tax rises or spending cuts will be necessary to put the public finances on a healthier footing. In answer to this, the Chancellor's current spending plans are very tight after 2025 – almost certainly too tight to be plausible, since they give little room for, for example, pay increases to alleviate industrial action, spending more on defence, or allowing the flexibility to respond to events

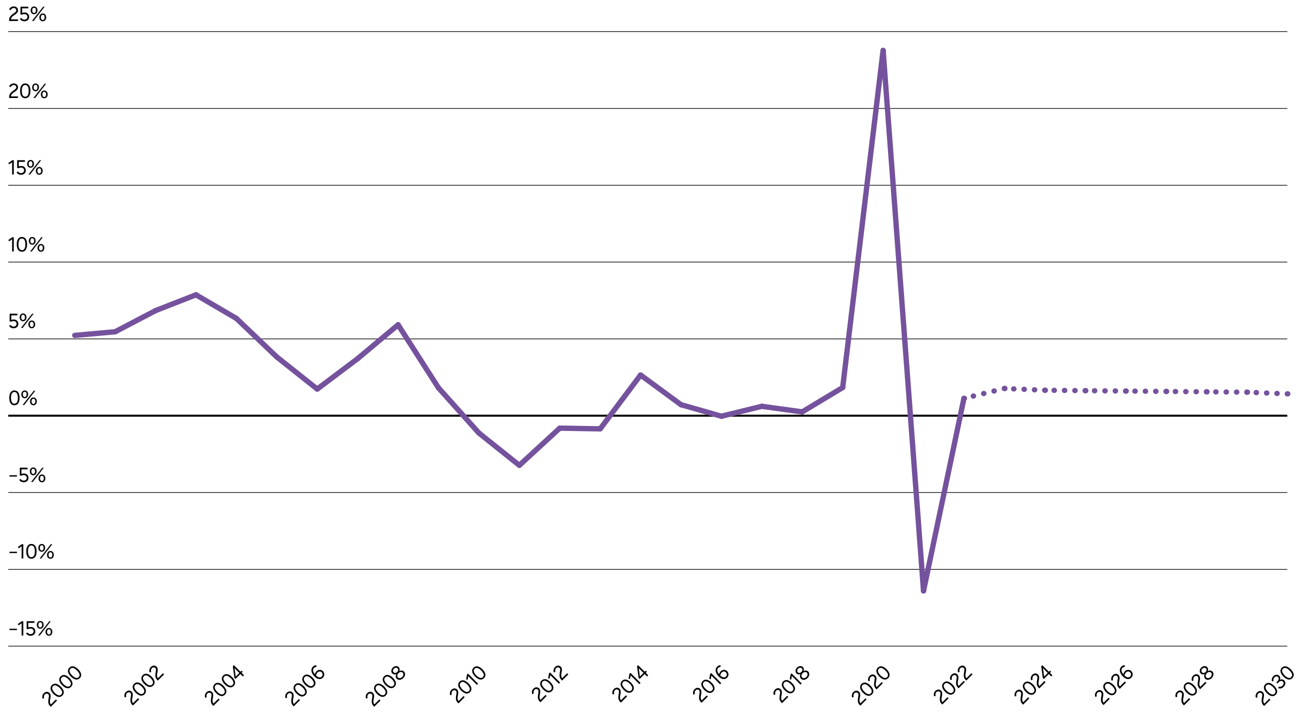
15 These figures are based on projections of public spending as a whole and do not constitute the sum of projections of the sectors discussed below. Therefore, this figure also includes expenditure on general public service, interest payments, economic affairs and defence spending. However, these projections do not include the effect of additional pressures such as increased defence spending due to the Russo-Ukrainian war or financing the green transition, both of which are likely to push this 'cost of standing still' even higher.

16 Keep, M. (2023), *The budget deficit: a short guide*, House of Commons Library, https://commonslibrary.parliament.uk/research-briefings/sn06167

17 CPP projections for budget deficit resemble those in IMF, 'World Economic Outlook: April 2023', https://www.imf.org/en/Publications/WEO/weo-database/2023/April. However, they significantly differ from those reported by the OBR for the period 2024–28. This is mainly because the OBR takes a bottom-up approach to modelling public spending, including the Chancellor's recent spending plans up to the end of the forecast period, which are arguably unfeasibly tight, whereas our projections are based on an analysis of the factors determining long-run spending levels and projecting these forward up to 2030.

and the realities of departmental spending pressures.[18] There may be some scope for public spending cuts – such as removing the triple lock on the State Pension – but there is substantial uncertainty about how much of a reduction in spending this would entail. The Institute for Fiscal Studies (IFS) estimates that maintaining the triple lock could cost anything between £5bn and £45bn per annum by 2050.[19] Given high levels of borrowing, relatively high interest rates and scarce opportunities to cut back spending further following a decade of austerity, it is reasonable to assume that tax rises will do the heavy lifting in putting public finances on a surer footing, whichever political party or parties form the next government.

Chart 1: Public spending real annual growth rate (actual and projected), 2000–2030[20]



18 For a useful discussion of the March 2023 budget see Pope et al. (2023), *Six things we learnt from the spring budget 2023*, Institute for Government (IfG), 15 March, https://www.instituteforgovernment.org.uk/comment/jeremy-hunt-spring-budget-2023. The OBR notes regarding spending reviews that more than £30bn a year is typically added to totals when it comes to setting detailed plans. See OBR (2023), *Office for Budget Responsibility: economic and fiscal outlook*, March, https://obr.uk/docs/dlm_uploads/OBR-EFO-March-2023_Web_Accessible.pdf

19 Cribb et al. (2023), *The triple lock: uncertainty for pension incomes and the public finances*, IFS, https://ifs.org.uk/publications/triple-lock-uncertainty-pension-incomes-and-public-finances

20 Projections are based on vector autoregressive models with share of elderly population, wage, productivity and gross disposable household income as explanatory variables. Source: *CPP analysis of Public Expenditure Statistical Analyses 2023*. See HM Treasury (2023), *Public expenditure: statistical analyses 2023*, https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1171658/E02929310_HMT_PESA_2023_Accessible.pdf

Box 2: How high will taxes need to rise?

A deficit of over 5% of GDP is unsustainable over the long run. To give a rough estimate of how high taxes would need to rise to put the UK on a surer fiscal footing, we calculate what taxes would need to be to bring the deficit down to 2.8% of GDP in 2030 – similar to the level before the pandemic.[21] In order to achieve this, and assuming all else equal, tax as a proportion of GDP would need to rise from 36.5% today to 38.8% in 2030.

38.8%

In order to bring the deficit down to a similar level before the pandemic, tax as a proportion of GDP would need to rise from 36.5% today to 38.8% in 2030

Can the UK sustain higher tax rates?

While our projected tax rate in 2030 is high for the UK by historical standards, it is not out of sync with other developed nations. Many of our peers, including Denmark (46.9%), France (45.1%), Sweden (42.6%) and the Netherlands (39.7%), already have a higher tax take as a proportion of GDP.[22] There is also no correlation across countries between lower tax rates and higher GDP per capita.[23] Meanwhile the UK's level of business investment as a percentage of GDP has continued to disappoint – between 1997 and 2017 it was the lowest across the OECD despite relatively low rates of taxation during the period.[24] Tax rises will have some distortionary effects, which may include adverse impacts on investment and growth, but evidence from other countries shows that it is possible to sustain higher tax rates while maintaining higher GDP per capita and higher rates of business investment.

> While our projected tax rate in 2030 is high for the UK by historical standards, it is not out of sync with other developed nations

21 The deficit in 2016/17 and 2017/18 was 2.8%. See House of Commons Library (2023), 'D2: public finance', 21 September, https://researchbriefings.files.parliament.uk/documents/SN02812/SN02812.pdf
22 OECD. Available from: https://www.oecd.org/tax/tax-policy/global-revenue-statistics-database.htm
23 https://ourworldindata.org/grapher/tax-revenues-vs-gdp-per-capita?xScale=linear&country=ALB~AUT~BLR~BEL~BIH~BGR~HRV~CYP~CZE~DNK~EST~FIN~FRA~DEU~GRC~HUN~ISL~IRL~ITA~OWID_KOS~LVA~LTU~LUX~MLT~MDA~MNE~NLD~MKD~NOR~POL~PRT~ROU~RUS~SMR~SRB~SVK~SVN~ESP~SWE~CHE~UKR~GBR
24 ONS (2017) 'An international comparison of gross fixed capital formation'. Available from: https://www.ons.gov.uk/economy/grossdomesticproductgdp/articles/aninternationalcomparisonofgrossfixedcapitalformation/2017-11-02

Public spending on health and social care will need to rise by £50bn per annum by 2030 to meet demographic and cost pressures

Despite it constituting just under a fifth of public spending today, even higher levels of spending on health and social care will be needed to uphold current levels of provision. Demography, wages and investment in technology are the key drivers of our health and social care projections. They suggest that for the health and social care sector to meet rising demand without any fall in the level of service, public spending in the sector would need to rise by £50bn per annum by 2030, at an average annual growth rate of around 2.49% above current spending levels.[25] While this might sound like a sharp increase, the projected spending growth rate would actually be significantly below the long-run trend rate of growth in the NHS of 3.6% per annum. The extent to which the UK invests in new technology to treat disease is also likely drive up the costs of healthcare, with the OBR consistently showing how technological change is the biggest driver of healthcare spending.[26] As the OECD wrote when projecting healthcare spending across advanced economies to 2030, 'it is not realistic that healthcare spending will cease to grow' – but spending growth can be managed through improved laws and regulations on the workforce, drugs and new technologies, alongside effective health promotion strategies.[27]

£50bn

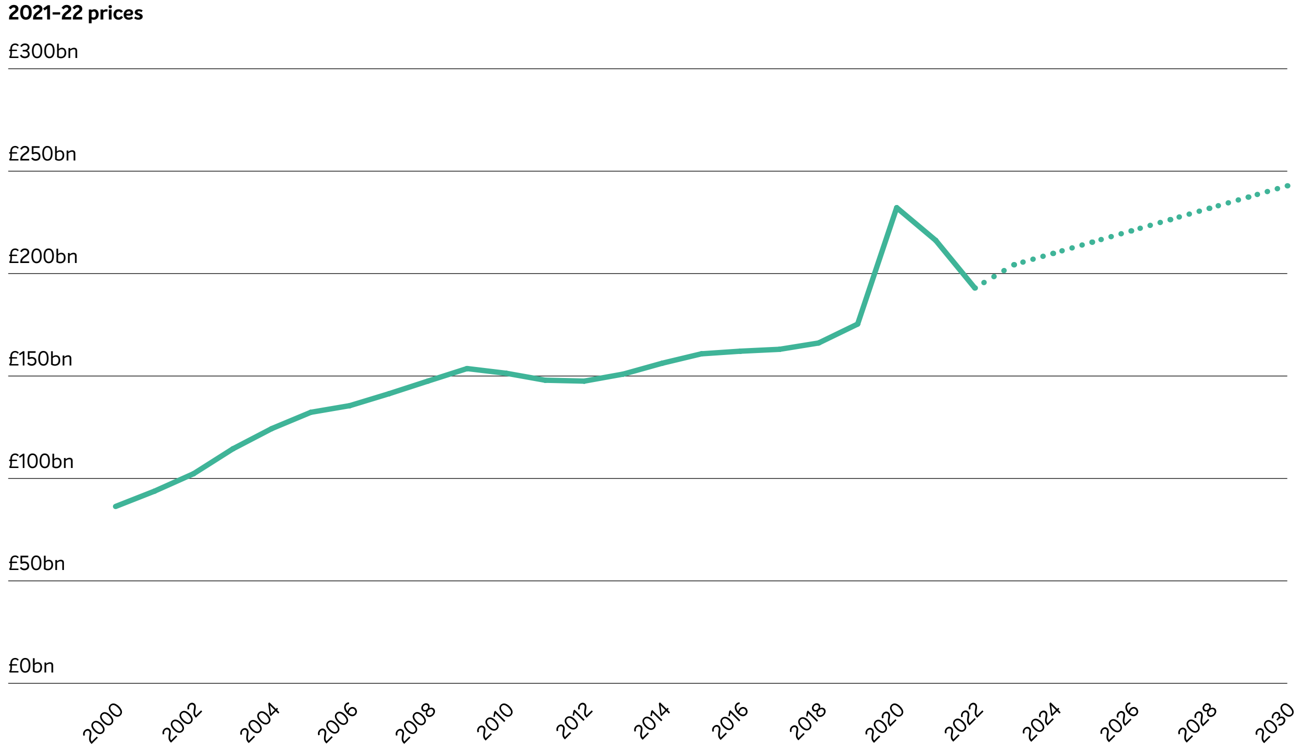
To meet rising demand without any fall in the level of service in the health and social care sector, public spending would need to rise by £50bn per annum by 2030

25 While these figures may appear high, they are actually at the conservative end of the scale relative to projections done by other organisations such as Health Foundation and IFS, which estimate real-terms average annual increases in NHS funding of nearly 3.5%. See Rocks, S. et al. (2021), *Health and social care funding projections 2021*, REAL Centre, https://www.health.org.uk/sites/default/files/upload/publications/2021/REALCentreFundingProjections_WEB.pdf

26 Technological change has historically been the critical driver of healthcare costs, and this is likely to remain the case. This was the key conclusion of a seminal analytical paper from the OBR on the evolution of spending on health: See Lichetta, M. and Stelmach, M. (2016), *Fiscal sustainability and public spending on health*, OBR, https://obr.uk/docs/dlm_uploads/Health-FSAP.pdf

27 Lorenzoni, L. et al. (2019), *Health spending projections to 2030: new results based on a revised OECD methodology*, OECD, https://www.oecd-ilibrary.org/docserver/5667f23d-en.pdf?expires=1695743072&id=id&accname=guest&checksum=DDB94E83B5C293BB51FE2617FCDE6E75

Chart 2: Public spending on health and social care (actual and projected), 2000–2030[28]



Social protection spending will need to increase by £39.5bn per annum by 2030 due to our ageing population

Social protection is the largest component of public spending and encompasses a broad spectrum of spending on areas such as the State Pension and Universal Credit, as well as housing benefit, child benefit, pension credit, and working and child tax credits. For much of the history of the welfare state, social protection spending enjoyed real-terms increases. However, it fell sharply after 2010 during austerity, though it rose sharply again in 2020/21 as targeted support was introduced to help the vulnerable during the pandemic and channelled through the welfare system.

The State Pension accounts for by far the largest element of social protection spending in the UK, costing around £137bn in 2022/23 alone.[29] Although the UK State Pension is less generous than equivalent benefits in many European nations, it remains well protected relative to other elements of UK welfare spending through the pensions 'triple lock', which sees pension payments rise annually by whichever is highest out of average earnings growth, Consumer Price Index (CPI) inflation or 2.5%.[30] It is clear that population ageing is a big driver of growth in welfare spending. Limitations on future welfare spending growth may be possible by ending the triple lock and increasing State Pension ages – though the latter is being made increasingly difficult due to rising health inequalities, which means increasing numbers will be ill and unable to work before reaching pensionable age.

28 Projections are based on vector autoregressive models with share of elderly population, wage, productivity, gross disposable household income, and spending on research and development (% of GDP) as explanatory variables. Source: *CPP analysis of Public Expenditure Statistical Analyses 2023*. See HM Treasury, *Public expenditure: statistical analyses 2023*.

29 HM Treasury (2023), *Public expenditure statistical analyses 2023*, https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1171658/E02929310_HMT_PESA_2023_Accessible.pdf

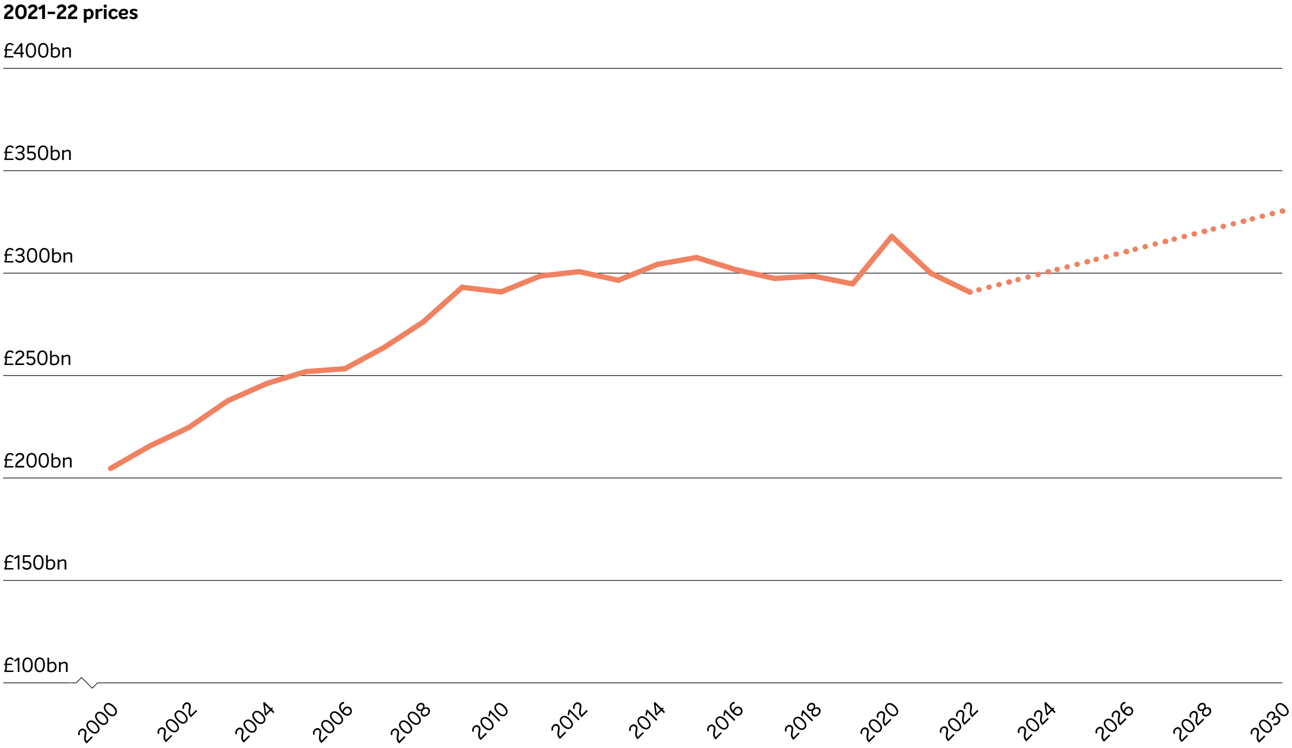
30 Cribb et al., The triple lock.

Our projections suggest that government spending on social protection will need to increase by £39.5bn per annum by 2030.[31] This would require the government to increase spending in this sector at an average annual growth rate of 1.59% in real terms. As with spending on health and social care, increases in annual expenditure of this level are not new – from 2000 to 2010, the UK government's spending on social protection increased at a rate of around 4.02% per annum.

£39.5bn

Our projections suggest that government spending on social protection will need to increase by £39.5bn per annum by 2030

Chart 3: Public spending on social protection (actual and projected), 2000–2030[32]



31 These projections are broadly similar to those suggested by other organisations, such as Resolution Foundation, which estimates that real-terms expenditure on the State Pension alone will increase by 24 billion per year by 2030. See Resolution Foundation (2022), 'New approach required to manage £76 billion a year spending pressures putting the UK on course for a German-sized state', 10 February, https://www.resolutionfoundation.org/press-releases/new-approach-required-to-manage-76-billion-a-year-spending-pressures-putting-the-uk-on-course-for-a-german-sized-state

32 Projections are based on vector autoregressive models with share of elderly population, wage, productivity and gross disposable household income as explanatory variables. Source: *CPP analysis of Public Expenditure Statistical Analyses 2023*. See HM Treasury, *Public expenditure: statistical analyses 2023*.

Spending on early years education is increasing but adult education budgets are falling

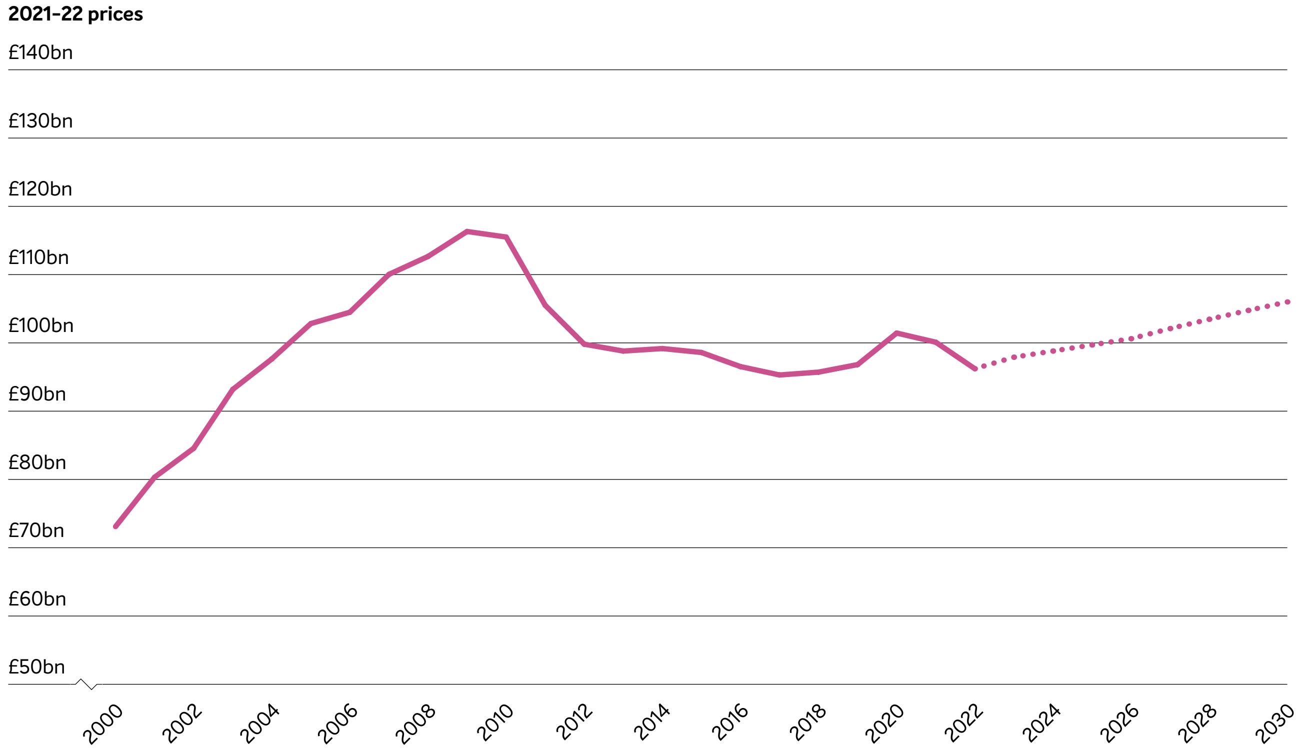
After social protection and healthcare, spending on education forms the next most significant component of government expenditure. In the past two decades, the UK's spending on education has grown by around 40% in real terms (with most of this growth taking place during 2000–09), driven in large part by increased school funding for both primary and secondary education. Adult and further education (FE) account for a small proportion of overall education funding (at nearly 3% and 7% respectively), having experienced less generous uplifts during the Labour governments and large funding cuts during austerity.

Based on our projections, sustaining the education and training system at its current level would require public spending to increase by nearly £9.8bn per annum by 2030.[33] The projections imply an average spending growth rate of 1.14% per annum up to 2030, which is lower than the historic average rate of 1.63% between 2000 and 2022. However, there were large differences in education spending during this time. Under the last Labour government, education experienced an average annual growth rate of nearly 5.57% per annum while after 2010, education spending fell by 1.39% per annum. The projected investment up to 2030 would start to reverse the disinvestment trends experienced over the last decade but would still be nowhere near the rates of increase experienced in the 2000s.

The projections are based on historic data, which captures pay increases and assumes that they will be needed in the future to maintain output. The School Workforce Census for 2023 shows that teacher vacancies nearly doubled between 2021 and 2022, with teachers reporting that the situation has continued to deteriorate.[34]

33 This includes primary and secondary schooling as well as early years, further and higher education, and adult education spending.
34 National Statistics (2023), *School workforce in England*, https://explore-education-statistics.service.gov.uk/find-statistics/school-workforce-in-england

Chart 4: Public spending on education and training (actual and projected), 2000–2030[35]



£9.8bn

Based on our projections, sustaining the education and training system at its current level would require public spending to increase by nearly £9.8bn per annum by 2030

35 Projections are based on vector autoregressive models with share of elderly population, wage, productivity and gross disposable household income as explanatory variables. Source: *CPP analysis of Public Expenditure Statistical Analyses 2023*. See HM Treasury, *Public expenditure: statistical analyses 2023*.

Getting the fundamentals right

2

Prior to the global financial crisis, persistent increases in public expenditure were made possible by high, sustained economic growth and deliberate policy decisions to prioritise increases and expansions in public services over, for example, investment on defence, which fell as a proportion of GDP over the same period. This is not the case today: economic and productivity growth is stagnant while the rising geopolitical instability has increased demands for higher spending on defence.

While our analysis in the previous chapter sets out the necessity of higher real levels of public spending, this increase is primarily to cover the rising pension and healthcare costs that come with an ageing population, as well as the increasing public sector wage costs that will be required to prevent the collapse of health and education services. CPP has long argued that public service spending can and should drive broad-based economic growth. But the spending increases outlined above would need to be allied with a proactive set of policies to drive productivity and stimulate growth rather than simply fund services as they are.

> The spending increases outlined above would need to be allied with a proactive set of policies to drive productivity and stimulate growth rather than simply fund services as they are

CPP's Fair Growth model, published in June this year, found that £160bn of economic output could be generated by closing gaps between local authorities in the drivers of productivity, including industrial make-up, life expectancy, skills and rates of employment by gender. This model identifies health and the proportion of the population with intermediate qualifications as strong drivers of local productivity, alongside the prevalence of high-value-added sectors like IT, finance and manufacturing and the level of investment in local economies. There is real potential to boost productivity in areas like adult skills, preventative population health and childcare through proactive interventions. Previous CPP analysis has estimated that the UK economy is missing out on £27bn a year in economic output due to childcare being inaccessible and unaffordable.[36]

This chapter discusses the investment priorities outlined above and suggests relatively low-cost policy options that an incoming government could pursue in its first term to set the foundations for fair growth.

36 Franklin, B. and Fogden, R. (2023), *Growing pains: The economic costs of a failing childcare system*, CPP, https://www.progressive-policy.net/publications/growing-pains

Table 2: Investment priorities for achieving fair growth

Investment priority	Productivity impact	Fair growth impact
Population health	If all lagging local authorities matched the national average life expectancy this would increase economic output by **£53bn** (2% of GDP)	Poverty drives inequality in health outcomes and ill health prevents people from working; addressing the root causes of poor health such as educational disadvantage, unemployment and low income would reduce inequality in society
Skills	If all lagging local authorities matched the national average proportion of people skilled to level 2 (GCSE or equivalent) this would increase economic output by **£28bn** (1% of GDP); targeted training programmes in high-demand skills will encourage local business investment, which is a strong driver of local productivity	Focusing on access to relevant education and training for over-18s in less-affluent areas will increase access to good jobs and opportunities
Childcare, early years and female labour market participation	Completely closing all local authority gender employment gaps in the employment rate would increase economic output by **£23bn** (1% of GDP)	Improving access to affordable childcare would lead to greater gender equality in the labour market while improving access to early years education; support for families would support child development, particularly for families struggling with poverty and poor-quality jobs
Education	If all lagging local authorities matched the national average proportion of people skilled to level 3 (A-level or equivalent) this would increase economic output by **£25bn** (1% of GDP)	The regional attainment gap is increasing, with children in North East England experiencing both the highest rates of child poverty and the lowest rates of top grades in 2023 A-level results; providing the best education at school and beyond, with a particular focus on relevant vocational and technical education, will help to create pathways to good employment for young people

Population health

Spending on healthcare already comprises just under a fifth of all public spending, with this set to increase due to our ageing population. Prevention has the potential to improve outcomes and ease the demand on our healthcare system in the future.

But preventative health spending in the UK has fallen significantly in recent years, most notably through cuts made to the public health grant, which funds local public health initiatives. The public health grant provides a highly cost-effective means of raising population health levels by investing in broader local health systems, with a study by the University of York published in 2019 finding that every £1 spent through the public health grant had the same health benefits as £3 spent by the NHS.[37]

The Health Foundation has estimated that restoring the public health grant to its 2015/16 peak would cost an additional £0.9bn per year. This, they argue, would reverse cuts at the local level to adult drug and alcohol services, smoking cessation services and sexual health services, which fell heaviest in the most deprived areas. Healthy life expectancy has been on a downward trend for women since 2009–11, yet we know that health is a key driver of local growth.[38] Restoring and expanding the public health grant would be an important first step towards prioritising improved population health and reduced health inequalities, which previous CPP analysis suggests is worth around £53bn (2% of GDP) in lost economic output.[39]

37 Martin, S. et al. (2020), 'Is an ounce of prevention worth a pound of cure? A cross-sectional study of the impact of English public health grant on mortality and morbidity', BMJ Open 10(10): e036411, https://bmjopen.bmj.com/content/10/10/e036411

38 Tinson, A. (2022), 'Healthy life expectancy target: the scale of the challenge. Does the government's health mission measure up?' The Health Foundation, 7 March, https://www.health.org.uk/news-and-comment/charts-and-infographics/healthy-life-expectancy-target-the-scale-of-the-challenge

39 Franklin, 'Funding fair growth'.

CPP recommends that this funding is ring-fenced for public health but directed into Integrated Care Partnerships (ICPs), which includes local NHS trusts, local authorities and other relevant local organisations, so that it can be allocated over the ICP geography in support of their population health strategy.[40] Towards the end of the parliament and beyond, it may be possible to find this money by repurposing existing NHS budgets. However, the immense pressure that the NHS is currently under, with the last year having seen record waiting times for both operations and ambulances, suggests that it will initially need to be additional.

Table 3: Proposed costed public health policies

Policy	Total in the next parliament	2024/25	2025/26	2026/27	2027/28	2028/29
Population health						
Increase in the Preventative Health Grant	**£4.7bn**	£0.9bn	£0.9bn	£0.9bn	£0.9bn	£1bn

While new investment in public services will be crucial to delivering fair growth, there remains scope for reform. In this, healthcare is no exception. CPP has long called for a concerted strategy to improve health across the population, underpinned by a strong commitment from central government and delivered at a local level by government and health bodies with additional powers and access to long-term funding. This could include national targets to tackle the drivers of poor health for the next generation, such as food insecurity, child obesity, children's mental health and inequality in school readiness. Better targeting of existing government spending towards local areas with higher rates of deprivation and clear ministerial responsibility for health outcomes rather than NHS targets could also ensure that public money is spent as effectively as possible.

> CPP has long called for a concerted strategy to improve health across the population, underpinned by a strong commitment from central government and delivered at a local level by government and health bodies with additional powers and access to long-term funding

Skills and industrial strategy

As global economic shocks such as the COVID-19 pandemic and Russo-Ukrainian war have exposed how dependant many advanced economies are on complex global supply chains, many nations have responded with more active industrial strategies to bolster domestic supply. Many of these industrial strategies have also sought to reconcile the desire to enhance domestic production with the twin aims of decarbonising the wider economy and creating new economic

40 Fogden, R. (2023), *Replenishing our roots*, CPP, https://www.progressive-policy.net/publications/replenishing-our-roots

opportunities and good employment in lagging areas. Such principals are central to the intentions of the Inflation Reduction Act in the US and the EU's RepowerEU plan. Indeed, hundreds of thousands of high-paying jobs are poised to be created across the US so-called rust belt, particularly in manufacturing and the green belt, as companies have already committed more than $200bn to manufacturing projects alone.[41]

In our 2020 Gear change for growth report, CPP argued that locally led industrial policy should be central to an inclusive economic agenda.[42] And in our Open for business report published earlier in 2023, we recommended introducing a UK manufacturing mission based on the prevalence of high-potential manufacturing industries situated in underperforming areas, where increased business investment could unlock billions in economic output.[43] CPP also recommended setting a target to raise adult education participation to 30% by the end of the next parliament, in recognition of the role of skills in attracting investment and enabling residents to benefit from investment in their areas.

Investing in an industrial strategy which builds on existing high-potential industries and develops local skill bases could help to drive sustainable and fair economic growth in the UK, particularly if it builds on the potential of green industry and the move towards a net-zero economy. This is something that the Labour Party has recognised. The party has already published its own industrial strategy, and Shadow Chancellor Rachel Reeves has borrowed heavily from the rhetoric of 'Bidenomics', with Labour insiders reportedly saying their economic programme would be 'Bidenomics on steroids' with Reeves' own 'Securonomics' – where growth, productivity and incomes rise everywhere, with good jobs in every part of the country.[44]

Given the lack of an industrial strategy since Theresa May was prime minister, we have for simplicity based our costed proposals on Labour Party spending commitments to a national wealth fund – which commits to making investments in the clean steel, green hydrogen and electric battery sectors – and a nationwide retrofitting policy, aimed at addressing the UK's energy-inefficient building stock. This is widely seen as a key part of the UK's transition to net zero that would reduce the amount of new energy infrastructure the UK will need to build.

Table 4: Proposed costed skills and industrial strategy policies

Policy	Total in the next parliament	2024/25	2025/26	2026/27	2027/28	2028/29
Green industrial strategy						
National Wealth Fund	**£8bn**	£1.6bn	£1.6bn	£1.6bn	£1.6bn	£1.6bn
National retrofit	**£30.6bn**	£6bn	£6bn	£6.1bn	£6.2bn	£6.3bn
Total	**£38.6bn**	**£7.6bn**	**£7.6bn**	**£7.7bn**	**£7.8bn**	**£7.9bn**

41 Brower, D. et al. (2023), 'The new era of big government: Biden rewrites the rules of economic policy', Financial Times, 11 July, https://www.ft.com/content/1c6be863-e147-4799-a650-fe3569549295

42 Norman, A. (2020), *A gear change for growth: devolving industrial policy to help local economies thrive*, CPP, https://www.progressive-policy.net/publications/a-gear-change-for-growth

43 Mudie, R. et al. (2023), *Open for business: unlocking investment in low-earning economies*, CPP, https://www.progressive-policy.net/publications/open-for-business-report

44 Labour (2022), '5 missions for a better Britain: securing the highest growth in the G7', https://labour.org.uk/missions/growing-the-economy

A focus on adult skills

CPP recommends that green industrial policy investments over the next parliament include a strong focus on developing local skills bases and strengthening local skills and innovation systems. Although the UK has a prominent and high-performing university sector, the proportion of adults receiving training throughout their career is low compared with peer economies, and the numbers are falling.[45] In 2022 there were around 200,000 fewer people in adult education than there were in 2018. A focus on developing local skills bases would help to both overcome skills shortfalls in areas like wind turbine installation and ensure that the benefits of investment and growth are broad based. Investment in adult education would give more workers the skills they need in the modern economy and drive growth. Restoring adult skills funding to enable the UK to reach a target of 30% of adults participating in adult education and training could be pushed to the following parliament, by which time the fiscal situation may have started to improve.

> CPP recommends that green industrial policy investments over the next parliament include a strong focus on developing local skills bases and strengthening local skills and innovation systems

45 Mudie et al., *Open for business*.

Childcare and labour market participation

Another major area where targeted investment could drive fair growth is childcare. The UK still has more vacancies in its labour market than before the pandemic.[46] We know from previous CPP research that a significant proportion of mothers (27%) would like to work more hours if they had access to suitable childcare, and that a lack of affordable childcare is holding back much-needed labour supply.[47] Improving access to suitable and affordable childcare would help parents to access the labour market while enabling them to pursue a wider range of careers and contribute to fair economic growth.

Women provide over twice as much unpaid childcare each week (450 million hours) as men (186 million hours), meaning that increasing the availability of childcare will help to alleviate gender inequality in the labour market, as well as providing a boost to the economy in terms of participation.[48] CPP have estimated that closing the gender employment gap between places could add up to £23bn in economic value to the UK economy.[49] This broad principle was recognised in the 2023 Spring Budget, with the Chancellor committing to extend the 30 hours offer of free childcare to all parents of children between the ages of nine months and four years. However, there are concerns that the sector will struggle to cope with the increase in demand, particularly in places where most parents rely on funded hours, which are widely considered to be underfunded for three- and four-year-olds.

Delivering a fully funded and more accessible system would require significant spending, beyond the increase in childcare funding announced in the Spring Budget. The Women's Budget Group has estimated that the shortfall between current government funding for the existing 15- and 30-hour 'free' schemes and the actual cost to providers of delivering those hours is £1.8bn a year. In addition, the existing extension of childcare is based on provision only for working parents. While some limited measures were announced to ensure provision for parents on Universal Credit, they are complex and continue to exclude many parents from accessing childcare and returning to work.

CPP calculates that extending the 30-hour offer to the roughly 614,000 children aged nine months to four years living in households on Universal Credit where at least one parent is unemployed would cost an additional £4.3bn in the first year in which the childcare offer was fully available.[50] We assume uptake in line with HM Treasury's assumptions used in the 2023 Spring Budget.[51] Hourly costs for children under one are also taken from Spring Budget costing note, while hourly costs for two- to four-year-olds include an uplift based on the Women's Budget Group analysis.[52] Table 5 shows the net cost to the Exchequer, including the revenue recouped

46 Source data: ONS (2023), 'Vacancies and jobs in the UK: September 2023', https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/jobsandvacanciesintheuk/september2023
47 Franklin, B. and Fogden, R. (2023), *Growing pains: the economic costs of a failing childcare system*, CPP, https://www.progressive-policy.net/publications/growing-pains
48 Hochlaf, D. et al. (2022), *What women want: tackling gender inequalities in unpaid care and the workplace*, CPP, https://www.progressive-policy.net/publications/what-women-want
49 Fogden, R. et al (2023) *Leave in the lurch: paternity leave, gender equality and the UK economy*, CPP, https://www.progressive-policy.net/publications/leave-in-the-lurch
50 Approximately 1.2m children aged 0–4 live in households in receipt of Universal Credit, with around 614,000 not covered by the childcare guarantee due to their parents being unemployed. This cost is net of the 15 hours currently available to all three- and four-year-olds, as well as two-year-olds in households claiming Universal Credit, which is funded at £5.62 per hour as of September 2023. For more detail see Gov.uk (no date),' 15 hours free childcare for 3 and 4-year-olds', https://www.gov.uk/help-with-childcare-costs/free-childcare-and-education-for-2-to-4-year-olds
51 Department for Education (2023), 'Spring Budget 2023 Childcare Expansion Policy costing information note', https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1172402/Spring_Budget_2023_Childcare_Expansion_Policy_costing_information_note_July_2023.pdf
52 Women's Budget Group (2023), 'WBG finds Government funding for early education and childcare falls short by £5.2bn', 16 March, https://wbg.org.uk/media/press-releases/wbg-finds-government-funding-for-early-education-and-childcare-falls-short-by-5-2bn

by removing the childcare element of the current Universal Credit system, which the Institute for Public Policy Research (IPPR) costs at £1.6bn in 2022/23 prices.[53] We calculate that following the 2023 Spring Budget, around £950mn will still be spent annually on the childcare element of Universal Credit. This would enable low-income parents who do not meet work requirements to access the 30 funded hours and so would improve the childcare offer for the poorest families.[54]

£3.3bn

Extending the 30-hour offer to the children aged nine months to four years living in households on Universal Credit where at least one parent is unemployed would cost an additional £3.3bn in the first year

Table 5: Proposed costed childcare policies

Policy	Total in the next parliament	2024/25	2025/26	2026/27	2027/28	2028/29
Increased funding for childcare providers	**£9.5bn**	£1.9bn	£1.9bn	£1.9bn	£1.9bn	£2bn
Expansion of childcare offer to parents on Universal Credit	**£13.8bn**	–	£3.4bn	£3.4bn	£3.5bn	£3.6bn
Revenue recouped from existing childcare support for those on Universal Credit	**£3.9bn**	–	£1bn	£1bn	£1bn	£1bn
Total increase	**£19.4bn**	**£1.9bn**	**£4.3bn**	**£4.3bn**	**£4.4bn**	**£4.5bn**

While this set of policies alone will not be fully universal in the sense we have set out previously, we judge that it would be challenging for the sector to meet additional provision requirements far beyond those announced in the 2023 budget within the first few years of a new parliament. CPP recommends that the next government prioritise ensuring that many more low-income parents are able to access childcare in the next parliament through the policies set out in Table 5.

Beyond 2030, we recommend expanding funded access to wraparound care and to care in the school holidays. When CPP surveyed mothers of young children in February 2023 we found that the availability of wrapround care – i.e. care that takes place before and after school – was the second most favoured option, after reducing costs, for encouraging greater use of childcare.[55] This makes it a priority for longer-term reform. The IPPR has also endorsed this measure and has costed a proposal at £7bn per year. However, as it points out in its report, this does not take account of the existing provision of before- and after-school clubs.[56] To address this, we propose targeted investment in after-school clubs and greater provision of extended school activities and holiday camps. We estimate that this will cost around £1.2bn per year in current prices.

53 Statham, R. et al. (2022), *Delivering a childcare guarantee*, IPPR, https://www.ippr.org/files/2022-12/delivering-a-childcare-guarantee-dec-22.pdf

54 In calculating the cost of extending the current childcare offering to parents who are out of work, we assume that the rate of uptake will be consistent with that of those in the workforce, as the behavioural impact we expect is that extending this policy would enable those out of work to seek and find employment. Drayton, E. and Farquharson, C. (2023), *New childcare entitlements have little to offer the poorest families*, IFS, https://ifs.org.uk/news/new-childcare-entitlements-have-little-offer-poorest-families

55 Franklin and Fogden (2023), *Growing pains*.

56 Franklin, B. and Hochlaf, D. (2021), *Women in the labour market: boosting mothers' employment and earnings through accessible childcare*, CPP, https://www.progressive-policy.net/publications/women-in-the-labour-market-2

Our total long-term childcare reform package is in line with the recommendations set out in our 2021 Women in the labour market research programme, which included:

- Additional government money to fully fund the current 30 hours offer for three- and four-year-olds.
- Fully funding an extension of free care to parents with children aged under two years and to cover school holidays.
- More financial support for parents seeking to access before- and after-school clubs.

Early years and education

Investing in early years education will not only deliver better outcomes for children now: it will also help them to prosper later, as CPP has previously set out in detail in our 2022 New horizons report.[57] Early years and education investment is key to closing the attainment gap between pupils of different backgrounds, which in turn can boost incomes and drive fair growth, and there are numerous policy levers with a proven impact on early years outcomes.

Family Hubs

New Labour's flagship Sure Start policy was found to have measurable success. A study by the IFS[58] into the health effects of Sure Start found that the introduction of each Sure Start centre had the impact of increasing hospitalisations in the first year of life, as families had better access to healthcare services, while reducing them to a greater extent into adolescence. This, the study found, was a result of 'stronger immune systems, better disease management, safer home environments and fewer behavioural problems'. A government committed to improving early years outcomes could therefore seek to ensure that funding for family hubs – the present-day legacy policy – matches that of Sure Start at that programme's peak.

Pupil premium

The pupil premium – a grant to improve educational outcomes for disadvantaged pupils in state-funded schools in England – is another policy with demonstrated benefit. A 2021 evaluation concluded that the policy had been successful in reducing the attainment gap between those on the premium and those who were not at primary school level.[59] Policies to expand the pupil premium previously advocated by CPP include:

- Increasing the amount received by primary school pupils under pupil premiums to £1,781, restoring the real value of the premium to its 2015 levels.
- Equalising the payment for secondary school pupils with the primary school entitlement.
- Expanding pupil premium payments to pupils in further education at the same rate
- Increasing the Pupil Premium payment for children who have been adopted or are in care from £2,410 to £2,921 per pupil.

57 Hochlaf, D. and Mudie, R. (2022), *New horizons: transforming educational opportunities to support inclusive growth*, CPP, https://www.progressive-policy.net/publications/new-horizons
58 Cattan, S. et al. (2021), *The health impacts of Sure Start*, IFS, https://ifs.org.uk/publications/health-impacts-sure-start
59 Alldritt, C. and Franklin, B. (2021), *Driving growth and shared prosperity: a joint report by CPP and the Northern Research Group*, CPP, https://www.progressive-policy.net/publications/driving-growth-and-shared-prosperity

Mental health support in schools

CPP's qualitative research on educational outcomes in North West England in 2022 found that educators and recent school leavers are acutely aware of the mental health crisis emerging for pupils. Lack of appropriate services, the transition to secondary education and the impact of the COVID-19 pandemic were all reported to have played a prominent role in exacerbating this issue. Intervention at an early age to address mental health issues could help to improve mental health outcomes for today's young people throughout their lives. This would not only reduce costs of mental health services at a later date but also remove a significant, and worsening, barrier for young people in accessing further training and employment. CPP has previously recommended that that counselling services could be provided to school pupils, at a ratio of 250 to 1, to increase access to support for all pupils, not just those who already have an acute problem.

Social protection

While each of these measures could have an impact on helping children to overcome disadvantage, more fundamental changes will be needed to remove disadvantage in the long term. Research by the Child Poverty Action Group has found that in 2023, child poverty will cost the UK state £39bn.[60] This is through a combination of higher spending on public services and the fact that adults who grew up in poverty have lower productivity and higher unemployment as a group. An obvious first step would be to remove the two-child cap on benefits, which penalises parents and young children and which adds to barriers to development in the early years. Removing the cap, which now impacts around one in ten UK children, would lift a quarter of a million children out of poverty.[61] Other proposals include removing the benefit cap and reversing the effective freeze on benefits that occurred between 2016 and 2020. This would effectively bring support back to its pre-freeze level.

Table 6: Proposed costed early years and education policies

Policy	Total in the next parliament	2024/25	2025/26	2026/27	2027/28	2028/29
Early years and education						
Pupil premiums reform	**£12.6bn**	£2.5bn	£2.5bn	£2.5bn	£2.5bn	£2.6bn
Family hubs spending to match Sure Start	**£10bn**	£2bn	£2bn	£2bn	£2bn	£2.1bn
250:1 pupil to counsellor ratio	**£5.1bn**	£1bn	£1bn	£1bn	£1bn	£1.1bn
Early years and education (total spend)	**£27.7bn**	**£5.4bn**	**£5.4bn**	**£5.5bn**	**£5.6bn**	**£5.7bn**
Removal of the two child limit	**£5.2bn**	**£1bn**	**£1bn**	**£1bn**	**£1.1bn**	**£1.1bn**

Rebuilding productive capacity over the next parliament

Based on our extensive back catalogue of research, including our recent Fair Growth model of productivity, CPP recommends the costed package of policy measures below to improve the drivers of fair growth over the next parliament. Recognising that the next parliament will

60 Hirsch, *The cost of child poverty in 2023*.
61 Murray, S. (2023), 'Scrapping the two child limit is the most effective way of reducing poverty', Save the Children, https://www.savethechildren.org.uk/blogs/2023/scrapping-the-two-child-limit-is-the-most-cost-effective-way-of-

likely continue to see tight budgetary conditions, we emphasise the most proactive spending decisions that could start to address some of the UK economy's most fundamental barriers to higher productivity and reduced inequality. In the following chapters, we explore some of the ways that the government could fund this increase in public spending through changes to the tax system and to the rules governing public spending at national and local level, including through greater devolution.

Increasing the powers afforded to local and regional governments to pool and direct local budgets has the potential to increase the efficiency of public spending, if local government is properly resourced. For example, in health, expanding the combined authority model and enabling local experimentation on how best to align funding, incentives and accountability could help to realise the full potential of a population health agenda by empowering regional and local government, together with health bodies, to deliver on these goals as they see best. Increasing the devolution of powers outside Westminster is on the agenda of both main political parties and was discussed in depth with the Citizens' Jury that informed this report. Issues related to greater devolution and the rules governing how governments spend money are set out in the following chapters.

Longer-term measures will be needed to restore adult skills and social protection funding to their pre-austerity peaks and to put in place reforms to ensure a well-targeted system. Additionally, efforts to roll out wraparound childcare should be viewed as a medium-term goal, in order to bring more people into the labour market. While tight fiscal conditions may prevent all necessary steps being taken in these areas over the course of a single parliament, getting the fundamentals for fair growth right now would enable a government elected in 2029 to go further still on all the measures set out in this chapter.

Table 7: Summary of costed fair growth policy proposals

Policy	Total in the next parliament	2024/25	2025/26	2026/27	2027/28	2028/29
Population health						
Increase in the Preventative Health Grant	£4.7bn	£0.9bn	£0.9bn	£0.9bn	£0.9bn	£1bn
Green industrial strategy						
National Wealth Fund	£8bn	£1.6bn	£1.6bn	£1.6bn	£1.6bn	£1.6bn
National retrofit	£30.6bn	£6bn	£6bn	£6.1bn	£6.2bn	£6.3bn
Childcare and female labour market participation						
Increased funding for childcare providers	£9.5bn	£1.9bn	£1.9bn	£1.9bn	£1.9bn	£2bn
Expansion of childcare element of Universal Credit	£13.8bn	–	£3.4bn	£3.4bn	£3.5bn	£3.6bn
Revenue recouped from existing childcare supportfor those on Universal Credit	£3.9bn	–	£1bn	£1bn	£1bn	£1bn
Childcare and female labour market Participation (total spend)	£19.4bn	£1.9bn	£4.3bn	£4.3bn	£4.4bn	£4.5bn
Early years and education						
Pupil premiums reform	£12.6bn	£2.5bn	£2.5bn	£2.5bn	£2.5bn	£2.6bn
Family hubs spending to match Sure Start	£10bn	£2bn	£2bn	£2bn	£2bn	£2.1bn
250:1 pupil to counsellor ratio	£5.1bn	£1bn	£1bn	£1bn	£1bn	£1.1bn
Early years and education (total spend)	£27.7bn	£5.4bn	£5.4bn	£5.5bn	£5.6bn	£5.7bn
Social protection reform						
Removal of the two child limit	£5.2bn	£1bn	£1bn	£1bn	£1.1bn	£1.1bn
Total	**£95.6bn**	**£16.8bn**	**£19.2bn**	**£19.5bn**	**£19.8bn**	**£20.2bn**

Delivering greater and fairer fiscal firepower

3

Funding higher levels of public spending and investment will mean higher taxation alongside new approaches to the rules which govern how much national and local governments can tax, borrow and spend. It is vitally important that any reforms to taxation and public finance rules are understood as fair and can command broad-based public support – otherwise they will be politically untenable. For this reason, we explored plausible options with a Citizens' Jury to understand whether and why members of the public think some options are fairer than others.

Who were the Citizens' Jury participants?

- Reflective of a diverse UK population: Our final jury session brought together 39 participants from different backgrounds. More than half (20) of participants came from an ethnic minority background, and there was broad representation from regions and nations across the UK.
- Broad social base: A significant number of participants (38%) came from lower monthly income bands (up to £2,000). The jury included a range of educational attainment – 21% had qualifications below A-level, 41% had A-levels and 38% had an undergraduate degree or above.

In this context, this chapter explores the economic rationale for options for raising revenue, and the jury's views on each of them. The options, as set out to the jury, were:

- **Wealth taxes:** This refers to taxes on an individual's accumulated wealth or net worth, rather than solely on their income or consumption. This might mean levying tax on someone when they sell their second home or sell shares. Or it could mean levying a tax based on the estimated value of a household's entire assets.
- **Excess profits taxes (EPTs):** EPTs, often referred to as windfall taxes, are a one-time or temporary tax imposed on specific industries or companies when they experience unusually high profits or windfall gains. They are often implemented in response to exceptional circumstances, such as a surge in commodity prices or excessive profits generated by specific sectors.

CPP asked the jury to focus on these areas given their high degree of prominence in current debates about taxation as well as in response to several countries (including the UK) having adopted windfall taxes in the wake of the cost-of-living crisis. We were also interested in exploring whether there were significant differences between the views of economists, who, for instance, increasingly view taxing wealth as necessary, and public opinion, which may be harder to discern. The remainder of this chapter focuses on wealth taxes as a means to increase the tax base, before moving on to discussing EPTs. We also include a short discussion of the UK's current tax reliefs landscape.

Background: economic rationale and options for taxing wealth

The UK currently relies heavily on taxing working-age people to fund public spending and investment. The typical person in an older age bracket will be paying less tax compared with someone of working age, as they are less likely to be in work and will be having more spent on them due to higher health, welfare (State Pension) and adult social care costs.

This balance is sustainable when the working-age population is growing relative to the older population, but the older population is now rising faster than the working-age population. The 'old-age dependency ratio' – the ratio of older people to working-age people – is set to rise from 30% today to around 45% by 2050.[62] This is likely to increase pressure on public finances as revenues from the incomes of workers will shrink relative to spending on healthcare and pensions for older people. This is one of the key reasons why there are increasing calls for taxes on income from wealth – which is particularly concentrated at older ages – rather than simply ratcheting up taxes on the income of the working-age population. Another key reason is that older generations have benefited from significant increases in housing and pension wealth over their lifetimes, while younger generations appear to be failing to accrue as much wealth at similar points in their lives.[63] Median wealth for those aged 75–79 – beyond the expected post-retirement savings peak – is still six times as high as that of those aged 30–34.[64]

> Older generations have benefited from significant increases in housing and pension wealth over their lifetimes, while younger generations appear to be failing to accrue as much wealth at similar points in their lives

Capital gains tax (CGT) is the largest form of wealth tax in the UK. It is levied on profits made by the sale of assets (such as second homes and shares) and is expected to raise about £17.8bn, or 1.7% of all tax receipts, in 2023–24. Property transaction taxes including stamp duty and land transaction taxes are expected to raise about £12.6bn, or 1.2% of tax receipts. Finally, inheritance tax is forecast to raise about £7.2bn, or 0.7% of all receipts. Taken together, UK taxes on wealth will amount to about £38bn, or 3.6% of total tax revenue. By comparison, taxes on personal income and earnings (income tax and national insurance) amount to around £440bn or 42% of tax revenue, while consumption tax (VAT) raises 161.5bn (15% of tax revenue). Corporation tax – a tax on businesses – raises about £74.5bn (7% of total tax revenue).[65]

There are many voices urging reform to current UK wealth taxes. Many organisations, including the Resolution Foundation, IPPR and IFS Deaton Review, have called for capital gains to be taxed in a similar way to incomes. Currently, for higher rate taxpayers capital gains are taxed at 20% on most assets (non-residential property) and 28% on property, including second homes (primary

62 OBR (2022), *Fiscal risks and sustainability: July 2022*, https://obr.uk/docs/dlm_uploads/Fiscal_risks_and_sustainability_2022-1.pdf.
63 Sturrock, D. (2023), *Wealth and welfare across generations*, IFS, https://ifs.org.uk/sites/default/files/2023-04/WP202315-Wealth-and-welfare-across-generations.pdf
64 See Franklin, 'Funding fair growth'.
65 CPP analysis of OBR data.

residences are exempt). There are also numerous and complex reliefs, including one that specifies any capital gains are written off at death and inheritors then selling assets need only to pay tax on the capital gains achieved since they inherited the asset. This provides an incentive for people to hold onto assets until death. Finally, there is a personal allowance of £6,000 before any tax must be paid on capital gains. All this means that while over 30 million people pay income tax, fewer than 300,000 people pay capital gains tax every year.[66]

Taxing capital gains and income from work at the same rate could raise around £10bn per annum, although the exact amount depends on behavioural change in response to policy reform and whether tax is levied on real or nominal gains. Abolishing the different reliefs available to those who can afford to hold assets until death, the large amount that can be earned before any tax is owed, and the reliefs for small business owners selling up and exiting the market could raise even more than this.[67]

Inheritance tax is another area where there are strong advocates for reform. Currently, very few people actually pay this tax. It is levied on the value of someone's estate when they die and charged at the rate of 40% on the value of estates worth over £325,000. But there are several exemptions, including any bequests to spouses or civil partners and an allowance on the value of a main residence up to £175,000. In practice, this means inheritance tax might not be due on the first £500,000 of an estate, while couple estates will only be taxed if their estate is worth more than £1m. All of this means only a small minority of estates at death are eligible for inheritance tax (about 4% in 2020/21).[68]

One idea for reforming inheritance tax is to shift the UK from our current system to one of lifetime gifts. Such a system means levying tax on the recipients of gifts rather than donors' estates. The UK is one of only three OECD countries that still levies inheritance tax on estates, which increases the chance of avoidance. It is possible to transition from one system to another, as Ireland has recently shown. The Resolution Foundation has previously called for a lifetime receipts tax, arguing that beyond a £125,000 lifetime receipts tax allowance, a basic rate of 20% should apply, with a top rate of 30% (paid by relatively few) above £500,000 of lifetime receipts. They estimate such a system would bring in about £7bn more per annum over the course of this decade.[69]

Finally, new net wealth taxes could be introduced – levied at a proportion of an individual's or household's total net wealth. Reporting in 2020, the LSE Wealth Commission recommended a one-off wealth tax for the UK on millionaire couples, at 1% a year for five years, which they estimated would raise £260bn or £52bn per annum (about 2% of GDP). The authors argued that by making a wealth tax one-off, it would not deter economic activity or be easily avoided and would have low administration costs.[70] Making it one-off also avoids the need to regularly value the presumptive gains on assets, which makes it challenging to tax net wealth.

66 Office for Tax Simplification (2021), *Capital Gains Tax – second report: simplifying practical, technical and administrative issues*, https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/987994/Capital_Gains_Tax_stage_2_report_-_May_2021.pdf

67 Estimates vary, but the true figure for the amount raised from equalising capital gains with income and abolishing reliefs would likely range between £10bn and £20bn. See for instance, Advani, A. (no date), 'Reforms to the taxation of wealth', https://arunadvani.com/taxreform.html, or Nanda, S. and Parkes, H. (2019), *Reforming the taxation of income from wealth and work*, IPPR, https://www.ippr.org/files/2019-09/just-tax-sept19.pdf

68 Adam, S. et al. (2022), *Death and taxes and pensions*, IFS, https://ifs.org.uk/publications/death-and-taxes-and-pensions.

69 Corlett, A. (2018), *Passing on: options for reforming inheritance taxation*, Resolution Foundation, https://www.resolutionfoundation.org/app/uploads/2018/05/IC-inheritance-tax.pdf

70 Advani, A. et al. (2020), *LSE Wealth Tax Commission final report*, https://www.lse.ac.uk/News/Latest-news-from-LSE/2020/L-December/Wealth-Commission-report

This is not a comprehensive list of wealth taxes, and others have provided details on other potential options: see for instance economist Arun Advani's list of plausible wealth tax options and associated revenue increases.[71] But the options discussed here are the most widely commented on and are those where there has been a significant amount of rigorous research into the potential benefits and drawbacks of reform.

Against the background of an ageing population which will require more public spending on healthcare and pensions and the need for greater public investment to support growth, wealth taxes are likely to become an important part of making future public finances sustainable. In fact, the current Conservative government has slowly been increasing taxes on wealth despite their rhetoric of seeking to lower the tax burden. The tax-free allowance on capital gains has been halved from £12,300 in 2022/23 to £6,000 in 2023/24 and will fall again to £3,000 in 2024/25. Inheritance tax thresholds have been frozen until 2028, which, as a result of inflation, means a higher (though still small) proportion of households having to pay inheritance tax. In addition, the government has scrapped allowing pensions to be inherited free of income tax, meaning that beneficiaries will now be charged income tax on any withdrawals from inherited pension funds.[72]

But while wealth is likely to play a greater role in taxation over the coming decades, the ability to levy effective taxes on wealth will depend on their design and, critically, whether the electorate view them as fair.

The jury's view on wealth tax options

To better understand the public's views on taxing wealth and specific taxation options we asked the Citizens' Jury we engaged with for this research to deliberate and come to a judgement. The jury initially discussed the idea of taxing wealth in general, before exploring three viable options in more detail.

Overall views on the taxation of wealth

There was fairly widespread agreement that large disparities in wealth were unfair, and that more tax should be levied on the wealthy. However, not all participants were sympathetic to the idea or use of wealth taxes. The jury did not conclude (in large numbers) that wealth taxes were a fair means of generating receipts for the state. In some cases participants favoured taxing the rich, but they believed that there were particular drawbacks to taxing specific forms of wealth on the basis that it could also target what they perceived as 'ordinary people', savers or parents. There were particular concerns around how different wealth taxes might target property.

The jury was then asked to consider three viable options for taxing wealth: a lifetime gifts receipts tax, equalising capital gains with income tax and a one-off millionaires' tax. The jury was presented with stylised arguments on what these reforms might bring in terms of additional tax revenue and how they could be fair or unfair.

71 Advani, 'Reforms to the taxation of wealth'.
72 Uddin, R. (2023), 'Government plans to scrap income tax benefits for inherited pensions', Financial Times, 21 July, https://www.ft.com/content/4083b1ba-7b12-455e-a695-0b3ac08530ae.

Table 8: Options for reform on wealth tax

Options	Arguments for	Arguments against
Replace inheritance tax with a lifetime gifts receipts tax	• Reduces risk of tax avoidance (by including pensions and removing current exemptions) • Increases total tax revenue from wealth (through a new tax-free threshold of £175,000) (approx.. £10bn per annum) • Ensures treatment of gifts including inheritance is brought onto a similar footing to income (through new rates)	• Administrative burden of introducing a new system • More people – including those with more modest wealth – would have to pay a lifetime gifts receipt • Including pensions within the tax may act as a disincentive to save
Equalise capital gains with income tax, so that gains from wealth and incomes are treated equally	• Incomes and wealth taxed more equally • Increases overall tax (through new rates and removal of exemptions) (up to £20bn per annum) • Removing exemptions makes the tax easier to understand and harder to avoid	• Focusing on access to relevant education and training for over-18s in less-affluent areas will increase access to good jobs and opportunities
A one-off 'millionaires' wealth tax'	• Only levied on the wealthy – households with assets over £1m • Could bring in substantial revenue over a short period of time (approx. £52bn per annum, or less depending on threshold and ability to administer	• Difficult to administer and calculate what tax each household owes • High potential for tax avoidance • Unfair on those who are asset-rich/cash-poor • Only possible to sustain for the short term

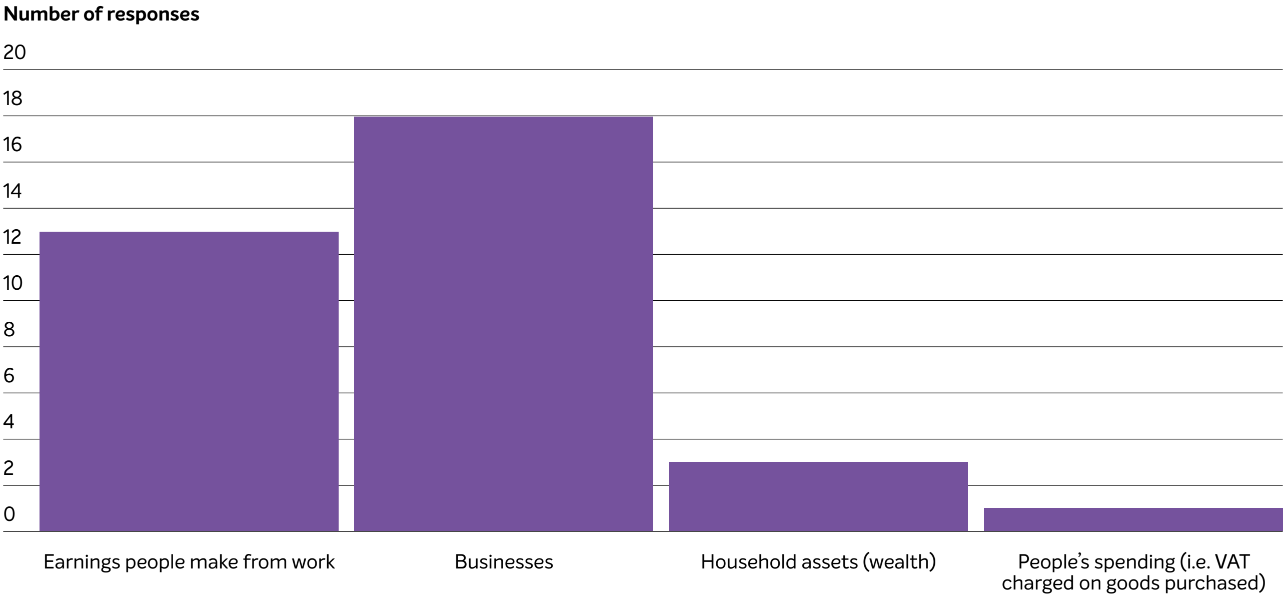
What the jury thought

- A small majority selected the millionaires' tax as the preferred wealth tax option in their responses. This was due to its suitability for dealing with acute economic crises like the COVID-19 pandemic or the war in Ukraine, and the perceived minimal impact it would have on the people who had to pay it.
- Nevertheless, the short-term nature of this additional revenue, and its consequent inability to rectify the chronic underfunding of public services, was a major reservation for participants. Participants also had some difficulty in deciding on whether £1m was a suitable threshold for the tax.
- The second most popular wealth tax which emerged during in-session polling was the proposal to equalise the capital gains tax rate with income tax rates. Participants regarded everyone being subject to the same rate of tax on their earnings – from income or asset sale – as fair and sensible.
- However, some in the jury argued that assets represented a lifetime of hard work and financial discipline, and that punishing or minimising these achievements was wrong.
- The least popular wealth tax among participants was the lifetime gift receipts tax – only 8% of participants believed this was the fairest alternative. The key reason presented by participants was that individuals should have the right to pass on whatever wealth they see fit, without it being subject to tax.
- However, for a handful of participants, the lifetime gift receipts tax was preferable to the other two options because, in their view, it would prevent the sort of tax avoidance that undermines inheritance tax.

A post-jury survey sought to capture the extent to which people thought wealth taxes should play a role if governments needed to raise tax. Out of the options available, the majority of respondents thought businesses and earnings should still do the heavy lifting.[73]

73 It should be noted, however, that the jury was not briefed on, and did not discuss, these alternative tax options in detail.

Chart 5: Jury response to 'If the government needs to raise taxes, which of the following sources of taxation do you think should shoulder the burden?'



Box 3: The jury's arguments for and against capital gains tax equalisation

Arguments in support of equalising capital gains tax with income tax

When discussing equalising capital gains tax in the context of the other wealth tax options and the existing approach, many participants viewed it as the fairest approach insofar as it aimed to tax all forms of income at the same rate.

A pervasive perspective was that increasing capital gains tax would represent a sustainable economic strategy for increasing tax revenue, promoting the UK's economic stability. This was a key difference which participants drew out between equalising capital gains tax and levying a millionaires' tax, and as discussed, this also fed into a key criticism of the millionaires' tax.

On the fairness question, many participants believed that equalising capital gains tax would affect relatively few people, and largely people who could afford it. They contrasted this with a lifetime gifts tax or broader tax-raising options like increasing income tax. They also assumed that equalising capital gains tax would generate significant revenue for the Exchequer.

Reservations about changing capital gains tax

Many participants viewed assets as representing hard work and financial discipline and believed that increasing CGT from its current level would unjustly 'punish' those who would be subject to it.

A common concern among participants was that increasing the tax rate would deter investors and sellers, making revenue predictions uncertain and actual revenue potentially lower than initial forecasts.

Implications for policy

With an election nearing, neither political party is keen to announce tax rises and both are seeking to position themselves as parties committed to low taxation. Labour has largely ruled out taxing wealth, while the Conservatives continue to flirt with the notion of abolishing inheritance tax. This is despite the Conservatives continually freezing thresholds on inheritance tax while reducing the personal allowance on CGT, both of which are generating more revenue for the Exchequer. Whoever wins the next general election, higher taxation – whether by stealth or otherwise – is almost inevitable.

Given the UK's public finance predicament, taxes on wealth are likely to be one of a range of measures used to generate a larger tax base in a sustainable way. But the exact specifications of taxes on wealth and how and when to introduce them in a way that is not political kryptonite is clearly a sizeable challenge. Even after discussing wealth taxes and specific taxation options, most members of the jury chose businesses and earnings as the areas that they thought should shoulder the burden of future tax increases.

Of the specific options presented to the jury, a one-off net wealth tax on millionaires was the most popular, but it is also the least sustainable (as it would apply only for a set number of years). The jury deliberations suggest that proposing any reforms to inheritance tax which would increase the tax base from inheritance and gifts is politically implausible in the short term – certainly during an election cycle. It was the least-favoured option among most jury members, with many arguing it is their right to pass on inheritance tax-free, even in the face of understanding how high the tax-free threshold currently sits and how small a minority pay it. If inheritance tax were to be replaced with a lifetime gifts receipts tax, the most useful line of argument in garnering public support would be to emphasise the potential for reducing tax avoidance among wealthier households, but there is no getting away from the fact this will be an unpopular policy.

> **"Certain taxes such as inheritance tax I think are unfair as tax has already been paid on this money once and people should be able to pass it to their family without penalty."**
>
> Citizens' Jury participant

The lowest-hanging fruit is reforming CGT – there was support for taxing capital the same as income and, of the options presented, it could also bring in the most sustainable increase in the tax base. This can be achieved not just through equalising capital gains tax with income tax but also by removing many of the spurious exemptions which reduce revenue without clear economic or social benefits (see section on tax reliefs below). But the jury voiced important reservations about reforming CGT that would need to be carefully mitigated through how the tax policy was designed and communicated.

Perhaps the essential point is that wealth taxes of the sort discussed here may not be sufficient given the projected size of the deficit outlined in Chapter 1, coupled with the need to invest in public services to help support economic growth. Wealth taxes will likely have to play a role, but they are no silver bullet to solve our public finance challenges.

Box 4: Tax relief reform

There is scope for reform across several elements of the UK's highly inefficient and messy tax system. The UK has, depending on how they are counted, as many as 1,100 tax reliefs,[74] at a cost of £400bn per year. While this sounds like a massive number, it is worth bearing in mind that most of these reliefs are non-controversial. Significant contributors to the £400bn figure include the zero rating of VAT on food and children's clothes, as well as lower earnings thresholds for income tax and national insurance. These reliefs are progressive and prevent high taxes being leveraged on essential goods and those on low incomes.

Some tax reliefs, though, are offered by Treasury to businesses and individuals with the aim of spurring greater economic output. While this is a worthwhile goal, there is evidence that many of these taxes are poorly targeted and should be either reformed or scrapped altogether.

Business Asset Disposal (BAD) Relief

BAD Relief (formerly Entrepreneur's Relief) is a form of tax relief for when an individual disposes of (sells) some or all of their business. It is intended to act as an incentive for those considering setting up a business, but in reality it acts as a way for some business owners to reduce the tax they pay on capital gains made through their business, allowing them to use their businesses as savings vehicles for retirement.

The government appeared to recognise this fact in 2020 when it reduced the lifetime limit an individual can gain from the disposal of business assets from £10m back to the 2010 level of £1m.[75]

Despite this change, BAD Relief means that the Treasury still forgoes around £1.1bn in tax revenue each year. Respondents to a consultation by the Office for Tax Simplification argued that the relief is poorly designed and that in order to incentivise investment, it would need to be targeted at the time at which an investor sets up their business.[76] Removing the relief altogether could be an easy and fair way to raise revenue.

Capital allowances for expenditure on new oil and gas developments

As the UK sought to bring North Sea oil and gas on line in the 1980s, it instituted a number of measures aimed at encouraging oil and gas companies to set up in UK territorial waters. These measures still stand today, meaning that oil and gas companies are entitled to receive corporation tax allowances for expenditure in the first year of operating.

While the North Sea basin is in decline, the government has signalled its intention to grant licences to extract all economically recoverable oil and gas. The Labour Party has said that it will honour licences granted by the current government. The £1.1bn in forgone annual tax revenue is therefore likely to continue over the next parliament.[77]

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74 Miller, H. (2018), 'Tax reliefs: look for the tax design behind the big numbers', IFS, 5 March, https://ifs.org.uk/articles/tax-reliefs-look-tax-design-behind-big-numbers#:~:text=The%20UK%20has%20over%201100%20tax%20reliefs.,see%20Figure)%20cost%20%C2%A3375bn

75 HMRC (2023), 'HS275 business asset disposal relief', https://www.gov.uk/business-asset-disposal-relief

76 Bangham, G. et al. (2020), *Unhealthy Finances*, Resolution Foundation, https://www.resolutionfoundation.org/publications/unhealthy-finances

77 HMRC (2023), 'Non-structural tax relief statistics', https://www.gov.uk/government/statistics/main-tax-expenditures-and-structural-reliefs/non-structural-tax-relief-statistics-january-2023#large_reliefs

This is a legacy policy measure which does not exist for other, greener forms of energy. Given cross-party consensus on the need to transition to move away from the use of fossil fuels over the long term, the government should remove this relief.

Business property relief

Business property relief is an inheritance tax relief aimed at preventing a family business from being broken up when one generation passes it on to the next. While in principle this might sound reasonable, in practice take-up rates are low and often limited to a tiny number of highly wealthy families. As the Resolution Foundation has pointed out, business property relief cost the Exchequer an estimated £800m in 2022/23 and benefits a strikingly small proportion of the population: just 51 estates in 2015/16 – those worth over £5m – accounted for 55% of the relief's cost.[78]

While policymakers might seek to enable families to pass on businesses, a system could be enacted where the capital gains owed for a business can be recouped when the business is sold, rather than when it is inherited. This way the Treasury would still receive revenue, without creating an incentive to break up family businesses.

Research and development tax credits and the Patent Box system

Finally, there are tax reliefs aimed at incentivising companies to create value and to boost growth by investing in research and development (R&D). Some of these policies are very poorly targeted and see significant deadweight loss, as many of the companies that receive them would invest in R&D anyway.

While some reliefs, such as the Patent Box system, would be difficult to remove as many businesses might be incentivised to move to other European countries that have enacted similar reliefs, there are some actions the UK government could take. Research by the IPPR[79] has found that 80% of the revenue forgone as a result of the R&D expenditure credit (a scheme used mainly by large firms) goes to companies that would make the same investments regardless of the availability of these reliefs. Similarly, 57–67% of the revenue forgone through the small- and medium-sized enterprises scheme is a deadweight loss.

While targeting this policy would be difficult, effective collaboration between business, Treasury and the Department for Business and Trade should enable it to be targeted more effectively and so to make significant savings. In Table 9 we estimate the savings for the Treasury if these losses were removed while maintaining targeted outlay on policies that do spur new investment.

In total, the reliefs highlighted in this section on business assets, capital allowances for expenditure on new oil and gas developments, business property relief and R&D tax credits cost around £8.1bn in 2024/25, and this is likely to rise over the course of the next parliament. This represents a significant ongoing cost to the taxpayer, with limited evidence of macroeconomic or social benefit. There is a strong case for reviewing these and other reliefs

78 Corlett, A. (2023), *Five bad ways to hand out £4billion a year*, Resolution Foundation, https://www.resolutionfoundation.org/comment/five-bad-ways-to-hand-out-4-billion-a-year

79 Jacobs, M. et al. (2017), *Industrial strategy: steering structural change in the UK economy*, IPPR, https://www.ippr.org/research/publications/industrial-strategy-steering-structural-change-in-the-uk-economy

and abolishing those that do not have a clear economic rationale. Ultimately tax reliefs should be subject to the same level of scrutiny as spending decisions, applying fiscal responsibility to policies that prevent money coming in as well as money going out.

Table 9: Projected costs of specific tax reliefs 2024/25–2030/31

Tax relief	2024/25	2025/26	2025/27	2027/28	2028/29	2029/30	2030/31
Business Asset Disposal Relief	£1.1bn	£1.1bn	£1.1bn	£1.2bn	£1.2bn	£1.2bn	£1.2bn
Capital allowances for expenditure on oil and gas	£1.1bn	£1.1bn	£1.1bn	£1.2bn	£1.2bn	£1.2bn	£1.2bn
Business Property Relief	£0.8bn	£0.8bn	£0.8bn	£0.8bn	£0.8bn	£0.8bn	£0.9bn
Reform of R&D tax credits to address deadweight loss[80]							
R&D expenditure credit (primarily large firms)	£2.2bn	£2.2bn	£2.2bn	£2.3bn	£2.3bn	£2.4bn	£2.4bn
R&D SMEs scheme	£2.9bn	£2.9bn	£3bn	£3bn	£3.1bn	£3.1bn	£3.2bn
Total	**£8.1bn**	**£8.1bn**	**£8.3bn**	**£8.4bn**	**£8.6bn**	**£8.8bn**	**£8.9bn**

80 Deadweight loss is calculated using deadweight loss estimate from: Jacobs et. al. M. (2017), Industrial Strategy: Steering structural change in the UK economy, IPPR, https://www.ippr.org/files/2017-11/1511445722_industrial-strategy-cej-november17.pdf

Excess profits taxes (EPTs)

As well as wealth taxes, we asked the jury to consider whether excess profit taxes – often called windfall taxes (EPTs) – are a fair and viable way of growing the tax base to fund future public services and fair economic growth.

On the basis of CPP's past evidence review and jury discussions (see below for more details), we would argue that EPTs should not be ruled out as one measure governments can take, particularly in response to short-term shocks that result in excessively high and unearned profits.[81] There have been some successful examples of EPTs in recent history as well as in the twentieth century. The jury was also broadly favourable to EPTs as a lever to generate tax revenue, suggesting that they could garner public support, and the UK government's energy levy has been a very popular policy irrespective of political affiliation.[82]

Like other forms of taxation, successful EPTs depend on effective design and implementation. This includes having a clear definition of what 'excess profits' means so that they are levied only in response to obvious windfalls. They must also be one-off taxes so as not to undermine trust in the tax system or harm industry, and must be levied retrospectively to prevent avoidance. This means that EPTs can be useful for supporting one-off increases in public spending under specific circumstances but they are unable to support a long-term shift to a higher tax base.

> EPTs can be useful for supporting one-off increases in public spending under specific circumstances but they are unable to support a long-term shift to a higher tax base

Citizens' Jury views on EPTs

Given the rise in the use of EPTs across many nations in the wake of the recent energy crisis, as well as broader accusations of 'greedflation' – the idea that high inflation rates have been used as a cover by businesses for profiteering – EPTs have become more salient among the public. Members of the Citizens' Jury had all been impacted by recent price rises stemming from the energy crisis, and high inflation more broadly, making EPTs a ripe area for deliberation.[83]

We sought to explore public attitudes in two particular areas:

1. Are EPTs perceived as fair?
2. If so, how can they be made fairer?

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81 See our discussion here: Singh, T. (2023), 'Funding fair growth: the case for excess profit taxes', CPP, 6 July, https://www.progressive-policy.net/publications/funding-fair-growth-the-case-for-excess-profit-taxes#:~:text=The%20EPV%20is%20an%20excess,or%20after%2026%20May%202022

82 Smiht, S. (2022), 'Cost of living crisis: majority of UK public supports windfall tax, poll shows', Independent, 25 May, https://www.independent.co.uk/climate-change/windfall-tax-poll-enery-companies-conservative-voters-b2087316.html

83 While our Citizens' Jury represented a broad spectrum of people of different demographic backgrounds, as well as from across the income spectrum, the majority of our sample were basic-rate taxpayers. No one in the sample earned above £125,410, the threshold for the additional (45%) rate of income tax.

- On the first question, based on the balance of evidence, most participants thought that excess profit taxes were fair: there was a widespread assumption that excess profits occur in periods of scarcity and thus stand in stark contrast to suffering elsewhere in the economy.
- Various people said it was obscene and morally wrong that companies should make such large profits and remunerate their executives excessively while ordinary people elsewhere in the economy (and society) were suffering.
- It was broadly agreed that companies should not profit from other people's misery, nor from the exploitative sale of essential goods or services (in times of scarcity or high prices).
- There was also support for the idea that EPTs are one-off instruments, and target profits garnered by chance, rather than effort or foresight.
- Some participants also argued in favour of EPTs particularly in cases where they target profits retrospectively, so they won't disincentivise investment.

> **"Untaxed large profits are not fair and morally unjustifiable. They [businesses] have the most money to spare as they (successful ones specifically) are always generating profit."**
>
> Citizens' Jury participant

At the same time, some participants expressed reservations around EPTs, largely on the basis of design or efficiency. There were also a small number of dissenting voices among the jury felt that EPTs were unfair:

- The idea that companies would inevitably find ways of avoiding paying any EPT imposed on them was mentioned, particularly that large businesses would have greater means of avoiding any potential EPT than smaller companies.
- Points were also raised about the possible impact of EPTs on firms' investment plans, with the argument being made that they could discourage investment and threaten firms' ability to expand and create new jobs.
- One participant suggested that since profits can be the result of prudent investing and planning, taxing them via EPTs is potentially unfair.

On the second question of how to make EPTs fairer, many participants thought EPTs should be levied on any business that accrues inordinate profits, and that no distinction should be made between types of business or types of profits:

- The belief that large companies have too much power was widely shared. Participants widely believed that many do not pay enough in corporation tax or avoid paying it where possible.
- EPTs were deemed suitable to address these problems and reduce socioeconomic inequality more generally. Some participants stressed that they were not convinced that EPTs were likely to discourage economic growth or investment.
- A few participants teased out a distinction between large corporations motivated by profit (e.g., Amazon) and companies whose excess profits derived from their contributions to the public good (e.g., vaccine windfalls).

Further stipulations from participants included:

- Companies in receipt of state investment should have their excess profits taxed.
- Businesses shouldn't profiteer through control of necessary goods or services, such as utilities.
- Money raised through EPTs should be invested into the NHS.

Changing the rules of the game

4

Chapter 3 explored some of the alternative mechanisms available to government to raise the revenue required to fund investment in public services. This chapter turns to the laws and conventions that govern public spending across both national and local government, and the extent to which they are conducive to higher levels of economic growth, raising living standards and reducing inequality.

The government's fiscal rules – the restrictions set by the government to constrain its own decisions on spending and taxes – can have a significant impact on the way that public money is spent, yet the way they operate can be opaque, constraining the policy and public debate. Over the course of 2023, the Labour Party has dialled up its rhetoric around fiscal conservatism, provoking economists such as Jim O'Neill, Andy Haldane and numerous university professors including SOAS Professor Ha-Joon Chang to call on UK political parties to instead focus on public investment. Yet with an election in sight, the Labour Party has doubled down, desperate to cast off its reputation as the party of tax and spend.[84] Under current fiscal rules, this approach could amount to austerity in the form of real terms public spending cuts, which would have grave implications for growth in the economy as well as living standards. So how could and should the rules change to ensure that much-needed public investment is not sidelined?

One of the biggest casualties of austerity policies between 2010 and 2019 has been local government: its budgets were cut by more than any other sector. And with few powers to fill the gap, many local authorities are now going bankrupt.[85] As providers of frontline services like adult education, employment support, housing and children's services, local governments are central to delivering inclusive growth. So should they have more power to raise money? While recent years have seen both the Conservatives and Labour committing to greater devolution, this has largely centred around a 'deals-based' model that permits the transfer of specific powers and narrowly defined policy areas. With the exception of the two trailblazer devolution deals for Greater Manchester and the West Midlands, neither party has yet signalled any intention to move towards greater fiscal devolution – whether by giving local government greater autonomy over spending decisions, letting areas retain a cut of their local tax base or allowing them to levy new local taxes.

> One of the biggest casualties of austerity policies between 2010 and 2019 has been local government: its budgets were cut by more than any other sector

Taken together, these two policy areas – fiscal rules and Treasury control of subnational spending – are the rules of the game which govern the UK's fiscal policy. Given the need to deliver higher levels of public investment to support the development of the UK's national and local economies, this chapter sets out how these rules are stifling our ability to deliver higher levels of fair growth. It includes the results of deliberation with our Citizens' Jury on these topics, setting out the extent to which the public have an appetite for reforming the rules of the game, and whether they perceive different reform options to be fair.

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84 Stone, J. (2023), 'Top economists pile pressure on Keir Starmer to reverse Tory cuts' Independent, 28 August, https://www.independent.co.uk/news/uk/politics/keir-starmer-policies-benefit-cuts-reeves-b2399406.html
85 Mudie, R. (2023), 'Why Birmingham City Council went bankrupt', Prospect, 6 September, https://www.prospectmagazine.co.uk/politics/62915/why-birmingham-city-council-went-bankrupt

Fiscal framework for national government

What are the current fiscal rules in the UK and who decides them?

Fiscal rules are determined by the government of the day and can include limits on levels of government expenditure, debt and tax. They are supposed to promote fiscal stability and ensure governments consider the long-term implications of their spending decisions. They support the government's credibility in making responsible choices about tax and spending and can support the Treasury to push back on departmental spending requests. They can also help to keep the cost of government debt down by reassuring investors that the government's borrowing plans are sustainable and that they can therefore be confident of getting their money back.

Like many other countries, the UK suspended its fiscal rules during the COVID-19 pandemic but reinstated them in 2021. The current fiscal rules in the UK are:

1. **Debt rule:** This sets out that levels of underlying public sector debt as a percentage of GDP should fall by the end of the forecast period, which is four to five years.
2. **Borrowing rule:** This sets out that net borrowing must not exceed 3% of GDP in the fifth year of the forecast period.
3. **Welfare cap:** This sets how much is spent on welfare payments. For instance, currently, spending on relevant welfare payments, including tax credits, child benefit and disability benefit, must not exceed £135.4bn in 2024/25.

The policy challenge

There are currently enormous burdens on public spending and an increasing sense of the unpredictability of future fiscal needs, as the UK deals with fast-changing geopolitical realities. Meanwhile, Europe is weaning itself off Russian gas after Vladimir Putin's invasion of Ukraine, and the UK public is feeling the effects of the cost-of-living crisis and a flailing health service. At the same time, the government still needs to encourage trade and investment, stimulate the economy, and invest as much as it can in public services. How do governments decide what balance to strike between raising revenue, borrowing and spending, especially in this uncertain climate? Organisations including the OECD have recognised that the current economic context poses challenges to the enforcement and design of fiscal rules. This is because there is a need to grow the economy, improve public services and increasingly respond to crises. But all these things cost money, and fiscal credibility is predicated on prudence.

> The current economic context poses challenges to the enforcement and design of fiscal rules

Box 5: Liz Truss and the importance of fiscal credibility

On 23 September 2022, then-Prime Minister Liz Truss and Chancellor Kwasi Kwarteng held an 'emergency' budget. This budget and the market reaction to it demonstrate the importance of governments being seen as fiscally credible, and the impact on borrowing costs if they are not.

The budget was intended to stimulate economic growth but included a number of unfunded policies. It proposed to increase government spending to freeze energy prices while also including £45bn of unfunded tax cuts for higher-rate earners and cancelling rises in other taxes like corporation tax. The date of the budget was announced less that ten days before it took place, which meant the independent OBR did not have time to model the impact of the budget on future levels of government debt and economic growth.
The lack of attention to institutions like the OBR, and the fact that Truss planned to finance these tax cuts through borrowing when the global cost of borrowing was rising sharply, caused panic in financial markets. The interest rate on ten-year government bonds rose sharply and the value of the pound fell against the dollar. The Resolution Foundation estimated that the budget led to a £30bn shortfall in the public finances: £20bn on unfunded cuts to national insurance and stamp duty, with a further £10bn added by higher interest rates and government borrowing costs due to the market's reaction.

> Adherence to overly strict and badly designed rules can also be a barrier to growth and can constrain investment in the UK's people, places and public services

Fiscal rules are meant to set out the principles of sustainable financing, ensuring that national public debt does not get out of hand, which would increase the cost of repayments and constrain growth for future generations.[86] But adherence to overly strict and badly designed rules can also be a barrier to growth and can constrain investment in the UK's people, places and public services. If fiscal rules end up causing costly delays – as was the case with HS2 in the March 2023 budget – or otherwise constrain economic growth, they will not support fiscal sustainability. Broad-based economic growth that boosts wages and profits across the country is key to the long-term sustainability of public finances.[87] How should fiscal rules operate in this uncertain economic environment? Alternative models and replacements for fiscal rules could include:

- **Moving to an asset-based approach:** This would consider the net impact of government spending on the value of public assets like hospitals, roads, intellectual property and the environment when making investment decisions, rather than making them based purely on financial liabilities. For example, when you take out a mortgage, you consider the house as an asset as well as the mortgage as a debt. Taking this approach would encourage public investment that improves the country's assets. Under this approach, the Chancellor would

86 High and spiralling debt would increase the risk premium on UK government debt, and that higher interest rates would make borrowing more costly throughout the economy.
87 Fogden, R. (2023), 'Changing the rules of the game: a fiscal framework for fair growth', CPP, 24 July, https://www.progressive-policy.net/publications/changing-the-rules-of-the-game-a-fiscal-framework-for-fair-growth

have been less likely to delay investment in HS2 at the 2023 Spring Budget, as the transport infrastructure created would have been seen as an asset on the balance sheet balanced by a new liability in the form of higher government debt.

- **Making the rules more flexible and nuanced:** Academics at the University of Munich have found empirical evidence that rigid fiscal rules deter public investment and flexible rules increase it. A more flexible approach could enable borrowing for non-capital investment if the OBR – the UK's independent fiscal council – agrees there is evidence it will boost our capacity to grow: for example, by investing in the childcare system, which CPP estimates could add £27bn to the economy.

Box 6: The role of the Parliamentary Budget Office in Canada

Countries vary in their approach to fiscal rules, but almost all advanced economies have them in some form. Most countries suspended their fiscal rules during the COVID-19 pandemic so they could deal with the unprecedented circumstances they faced. Since the pandemic, the European Commission has proposed more flexible goals or 'standards' for EU member states, giving member countries more control over how they meet these goals to enable gradual debt reduction. One G7 country that does not have fiscal rules at all is Canada. Instead, they have a Parliamentary Budget Officer (PBO) – a former senior civil servant who is responsible for providing independent economic and financial analysis to parliament.

The role of the PBO was established in law in response to criticisms around the credibility of the federal government's fiscal projections, and the PBO is accountable directly to the Canadian parliament. Their role includes responding to requests for cost estimates of new legislation and programme proposals, reporting on the state of the nation's finances and the Canadian economy, and holding departments like the Canada Revenue Agency to account for the levels of tax avoidance.[88] The role of the PBO has evolved over time and was widened in 2017 to include providing non-partisan estimates of the financial cost of election campaign proposals. This change is something that the UK could consider to encourage a more grounded and realistic media dialogue around tax and spend in the pre-election period).[89]

CPP and NatCen explored with our Citizens' Jury whether governments should always 'balance the books' or whether our politicians should take a more flexible approach to financial management.

88 Details on the mandate of the Office of the Parliamentary Budget Officer is available at: https://www.pbo-dpb.ca/en/mandate--mandat; Tunney, C. (2017), 'Senator calls on budget watchdog to take CRA to court to reveal tax gap information', CBC News, 11 December , https://www.cbc.ca/news/politics/cra-tax-avoidance-percy-downe-1.4443181

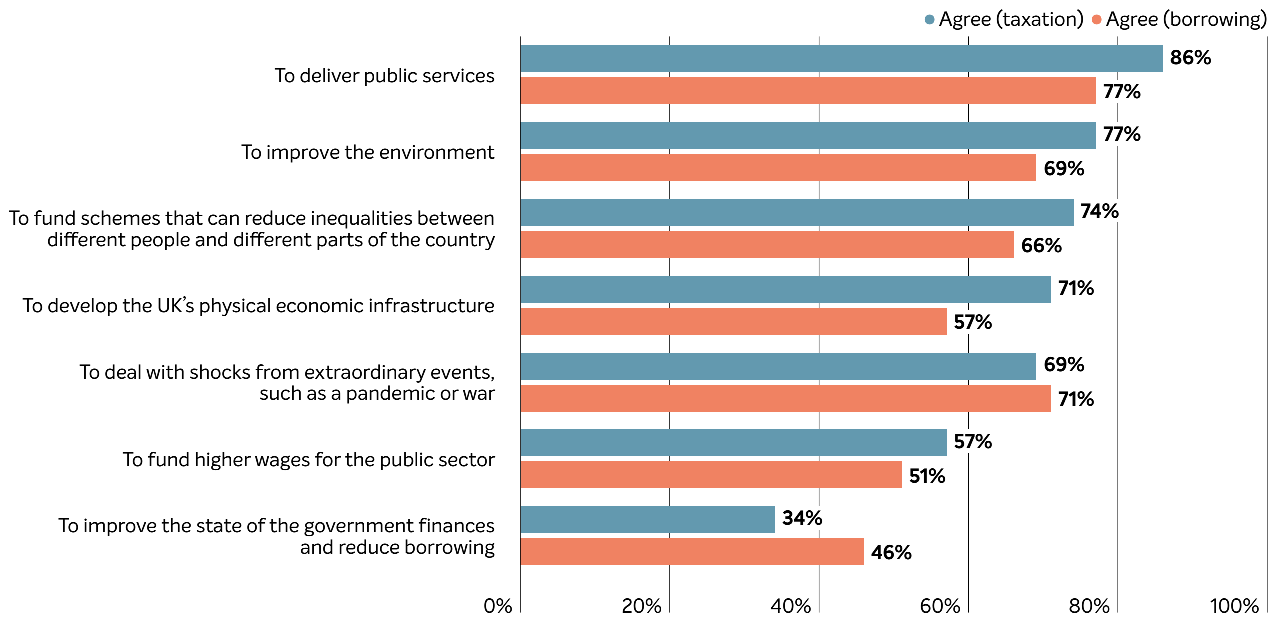
89 Fogden, R. (2023) *Changing the rules of the game: a fiscal framework for fair growth*. Centre for Progressive Policy. Available at: https://www.progressive-policy.net/publications/changing-the-rules-of-the-game-a-fiscal-framework-for-fair-growth

The jury's view on fiscal rule options

Both balancing the books and investing in public services were viewed as highly important by most of the jury. Participants recognised that spiralling (or uncosted) debt undermines the UK's credibility as an investment opportunity, and the Truss government's fiscal experiment was cited as a cautionary tale.

Paying due consideration to future generations was widely seen as constitutive of fairness. While most participants were anxious not to undermine the prospects of future citizens by recklessly accumulating debts, the vast majority of the jury agreed that government should raise taxes (86%) or increase borrowing (77%) to fund public services like healthcare and education, highlighting the central importance of these services to people and their concern about the state they are currently in.

Chart 6: Proportion of jury members who agreed that taxation or borrowing should be raised to fund certain policies[90]



Overall, the jury wanted government to be accountable for its spending decisions. Members of the jury tended to agree that governments must be subject to accountability mechanisms to ensure that spending does not get out of hand. Yet the utility of fiscal rules as a mechanism for accountability was questioned. Many participants complained that because fiscal rules were routinely flouted or rewritten, in effect they were largely redundant.

> "Fiscal rules can be made and altered anytime, so they make little difference."
>
> Citizens' Jury participant

90 Based on the responses of 35 jury members to a post-deliberation survey. CPP's citizen's jury on funding the UK future services was drawn from a representative sample of the UK public was facilitated by NatCen and took place over July and August 2023.

Members of the jury tended to agree that governments must be subject to accountability mechanisms to ensure that spending does not get out of hand. Yet the utility of fiscal rules as a mechanism for accountability was questioned

Chart 7: Proportion of jury members who said that fiscal rules are important for maintaining public finance sustainability[91]

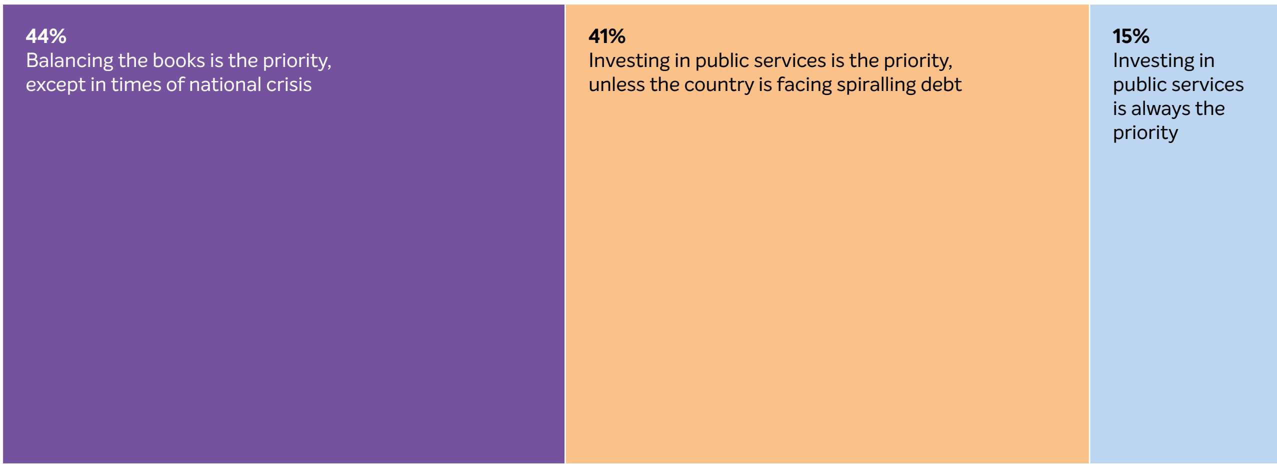
Members of the jury wanted government spending decisions to be guided by the principles of pragmatism and flexibility and, following the deliberative process, demonstrated a nuanced understanding of the trade-offs being faced by government.

> **"I would prioritise public spending marginally, in order to make long-term improvements that will ultimately reduce costs: renewable energy facilities, public transport improvements, green spaces to boost desirability. With big long-term goals in focus that will later bring about financial savings, this should be a priority before balancing the books."**
>
> Citizens' Jury participant

91 Based on the responses of 35 jury members to the question: "Having heard about fiscal rules during the deliberation, how important do you think they are in maintaining the sustainability of government finances?". This question formed part of the post-deliberation survey. CPP's citizen's jury on funding the UK future services was drawn from a representative sample of the UK public was facilitated by NatCen and took place over July and August 2023.

As outlined above, investment in public services was also, for many participants, a paramount government responsibility and they thought that failure to invest would have a grave human cost. During the course of the discussion, many of the participants who were initially hostile to investment changed their minds – acknowledging the importance, and resource intensity, of services like schools and hospitals. At the very least, it was argued, the stringency of fiscal rules should be re-evaluated in exigent circumstances, such as during the cost-of-living crisis.

Chart 8: Proportion of jury members who thought the government should prioritise balancing the books versus investing in public services[92]



> "It is essentially a delicate balancing act and not a binary choice [between balancing the books and investing in public services]. If forced to prioritise one over the other, I would choose balancing the books. A country cannot live beyond its means indefinitely, otherwise the cost of servicing national debt will become unsustainable for future generations."
>
> Citizens' Jury participant

Based on discussion with our Citizens' Jury, CPP has identified the following objectives for a reformed fiscal framework:

1. Fiscal rules enable government spending decisions to be scrutinised and the Treasury to be held accountable.
2. They have built in flexibility to enable governments to respond to exigent circumstances.
3. They do not inadvertently incentivise short-term decision-making at the expense of fair economic growth.

92 Based on the responses of 39 jury members to the question: "Should the government prioritise balancing the books or investing in important public services?". This question formed part of the deliberative process. CPP's citizen's jury on funding the UK future services was drawn from a representative sample of the UK public was facilitated by NatCen and took place over July and August 2023.

Fiscal framework for local government

The UK's regional inequalities are now widely understood to be a major drag on our national economic performance. Yet despite no shortage of plans to tackle them, most recently including local industrial strategies, city deals and 'levelling up', the UK still maintains a geographic productivity gap estimated to be worth £215bn in lost output, around 10% of GDP.[93] Despite broad political commitments to support regional development, the absence of a credible strategy to do so has meant UK economic policy has tended to drift back towards its default position: seeking to maximise the growth and success of a select few high-performing sectors, largely based within the Greater South East, while redistributing the proceeds to account for geographic inequalities. The Greater South East now transfers around £55bn per annum to other regions.[94]

There is growing agreement that strengthening the economic performance of lagging areas by giving local governments a bigger stake in economic policymaking may be a more productive route. Yet the UK's ability to encourage higher levels of economic growth in lagging regions through greater devolution is limited. The gradual deterioration of local government capacity in recent years – due to austerity, the increased centralisation of the UK state and a fiscal framework that prevents long-term economic planning – means that many local institutions are ill equipped develop bold, ambitious economic plans to deliver fair growth.

> There is growing agreement that strengthening the economic performance of lagging areas by giving local governments a bigger stake in economic policymaking may be a more productive

The policy challenge: strengthening local government to be enablers of fair growth

During the austerity years, local government budgets were cut more than any other part of the public sector and poorer areas were hit disproportionately harder than richer areas.[95] Budgets have not since recovered to pre-2010 levels, while greater demand for statutory services, particularly adult social care and children's services, have further compounded budgetary pressures. Local authorities have had little choice but to reallocate greater resource towards these areas, inevitably cutting back non-statutory spending, paring down investments to enhance local

93 Confederation of British Industry (CBI) (2023), 'Make the UK a world leader in cluster development', https://www.cbi.org.uk/our-campaigns/make-the-uk-a-world-leader-in-cluster-development; Shaw, J. and Newman, J. (2023), 'Trouble ahead for the deals-based approach to English devolution?' Bennett Institute for Public Policy, 21 August, https://www.bennettinstitute.cam.ac.uk/blog/deals-based-approach-to-english-devolution

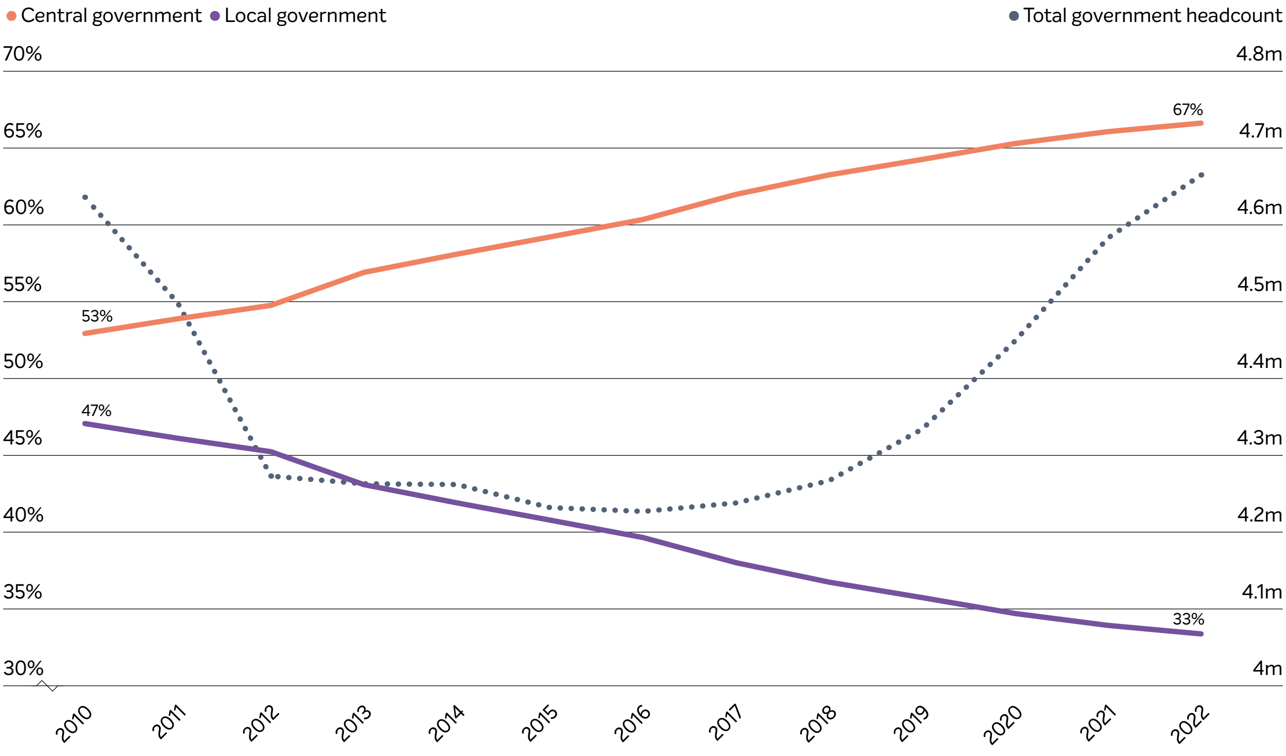
94 CPP analysis of ONS (2023), 'Country and regional public sector finances, UK: financial year ending 2022', 26 May, https://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/publicsectorfinance/articles/countryandregionalpublicsectorfinances/financialyearending2022

95 Alexiou, A. et al. (2021), 'Local government funding and life expectancy in England: a longitudinal ecological study', The Lancet Public Health 6(9): E641–47, https://www.thelancet.com/journals/lanpub/article/PIIS2468-2667(21)00110-9/fulltext

infrastructure and nurture a more dynamic business environment.[96] In England, for instance, the 'black hole' in local authority budgets is now forecast to be around £5.2bn by 2026, even after £2.5bn of planned cuts, including nearly £500m to adult care services.[97]

Cuts to local government budgets have also fed through into a significant reduction in staffing numbers, which have fallen by around 29% since 2010. Yet this does not reflect a shrinking of the overall size of the UK state – rather, it reflects a steady increase in centralisation since 2010. The share of the UK government workforce employed by central government has risen from 53% in 2010 to 67% in 2022, while local government's share has fallen from 47% to 33%. Overall central and local government headcount is roughly the same in 2022 as it was in 2010. Since 2010, annual government expenditure has risen by 14% in real terms, while local government's real spending power has fallen significantly.[98] A continuation of this trend will make it increasingly difficult for local governments to become drivers of fair growth in their areas, particularly as an ageing population will continue to add greater pressures onto statutory services such as adult social care. Deepening budget deficits will also make it more difficult for local governments to shift service delivery towards a more preventative model so long as high demand persists. Based on previous experience, it is not unlikely that some areas of non-statutory spending which are essential to delivering fair growth, such as population health, will see their budgets siphoned in order to fill the black hole in funding for statutory services.

Chart 9: Share of total UK government employment rates, FTE equivalent, 2010–2022[99]



96 Atkins, G. and Hoddinott, S. (2022), *Neighbourhood services under strain: how a decade of cuts and rising demand for social care affected local services*, IfG, https://www.instituteforgovernment.org.uk/publication/neighbourhood-services-under-strain
97 Tomas, P. and Lynch, P. (2023), 'Black hole in town hall budgets rises to £5bn', BBC News, 21 August, https://www.bbc.co.uk/news/uk-66428191
98 Source data: HM Treasury, *Public expenditure: statistical analyses 2023*; Atkins, G. and Hoddinott, S. (2020), 'Local government funding in England', IfG, 10 March, https://www.instituteforgovernment.org.uk/explainer/local-government-funding-england
99 Source: CPP analysis of ONS (2023), 'Public sector employment time series', 12 September, https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/publicsectorpersonnel/datasets/publicsectoremploymenttimeseriesdataset

Box 7: How is local government funded?

Local government funding stems primarily from central government grants, council tax and business rates. In England, the Local Government Finance Settlement (LGFS) determines most of local authorities' spending year on year, with Scotland, Wales and Northern Ireland having similar systems. Council tax contributes just under half (48%) to local authority budgets on the whole. Across the board, however, council tax's share of total local authority revenues has increased steadily since 2010 as grant funds, like the LGFS, have been pared back.

Combined authorities (CAs) have a slightly different, more flexible funding model to local authorities. They can levy precepts on local council tax for unique projects if all local council leaders consent. Each CA is founded upon a 'devolution deal' that includes a thirty-year investment fund to support longer-term economic planning. They can control specific budgets, like adult education and transport, yet these are capped by central government. Notably, Greater Manchester and the West Midlands have recently agreed new trailblazer deals which will grant them a multi-year, 'single pot' fund. Other CAs are currently seeking deeper devolution deals.

Central government provides additional funding pots for local government, some of which are need-based while others invite local government to bid for funding to support projects that correspond with central government objectives. For the latter, local governments are often asked to submit proposals detailing specific projects, their benefits, timelines and costs. These bids are evaluated on criteria such as feasibility, anticipated impacts, cost-effectiveness and national policy coherence. This model of bid-based funding has become increasingly prolific. Between 2010 and 2018 at least 177 different funding pots were developed, and in 2018 the number of grants available to local authorities was four times greater than in 2013.

This rise in competitive bidding undermines the ability of local areas to develop comprehensive, long-term plans for growth, as well as being a drain on already scarce resources.

The policy challenge: fiscal sustainability in local government

The current fiscal framework for local government offers little financial certainty, preventing local leaders from being able to develop long-term economic plans. The LGFS has, for many years, been set on an annual basis – with local authorities receiving notice of their budgets for each year just weeks in advance.[100] Grant funding – which comprises most of local government's budgets – has become increasingly fragmented, with a sharp increase in the number of different grants ring-fenced for different purposes.[101] Taken together, this severely reduces local governments' autonomy over spending, while hampering their ability to make longer-term strategic decisions over resources. However, greater autonomy over spending does not in itself lead to better financial decision-making. Local governments may make poor investment decisions that result in bankruptcy, as has happened recently to Birmingham, Croydon, Thurrock and Woking councils.

Local taxation, which accounts for the remainder of local government budgets, is largely beyond the control of local government itself. The UK is unique among OECD countries in its dependence on property taxes – council tax and business rates – to provide virtually all local tax revenues, compared with an average of around 33% of local taxes across OECD members. Local governments are not able, as they are in many OECD countries, to retain a share of other local revenue sources such as income tax, VAT or corporation tax. Nor can they truly levy their own taxes. While there are some examples of local charges, such as the Workplace Parking Levy in Nottingham and the Ultra Low Emissions Zone (ULEZ) in Greater London, such examples are rare and raise very little revenue. In the absence of legislative power, some places are adopting more piecemeal, voluntary approaches, such as Manchester's new tourist tax, known locally as the City Visitor Charge, which was developed through Manchester's accommodation business improvement district (BID) rather than led by a local government authority.[102]

Fiscal devolution: the view from the Citizens' Jury

While many proponents of fiscal devolution have argued that it can improve the financial sustainability of local government, there has been little exploration to date of public attitudes on greater fiscal devolution.

Through exploring public attitudes towards greater fiscal devolution with our Citizens' Jury, we tested three key questions:

1. Whether or not a consensus existed among the public on greater fiscal devolution.
2. How the public viewed the trade-off between redistribution between richer and poorer areas, and local governments having a greater stake in local growth.
3. What principles or conditions the public believe should be attached to any future proposals for greater fiscal devolution.

100 Spencer, J.P. (2023), 'Guest blog: end the centralisation experiment now!' CPP, 7 August, https://www.progressive-policy.net/publications/guest-blog-end-the-centralisation-experiment-now
101 Bridgett, S. (2023), *Pot luck: what the Government can do to streamline grants for local economic policy*, Centre for Cities, https://www.centreforcities.org/wp-content/uploads/2023/06/Pot-luck-June-2023.pdf
102 Tweed, L. (2023), 'Manchester introduces tourist tax: everything you need to know', Manchester Evening News, 3 April, https://www.manchestereveningnews.co.uk/news/greater-manchester-news/manchester-introduces-tourist-tax-everything-26622492

The scenario

As part of a role-playing exercise based on a fictitious scenario, the jury were asked to imagine they had been tasked by the Chancellor of the Exchequer to collectively review the hypothetical evidence base for the Chancellor's decision to grant greater powers on spending and taxation to three different fictional local governments, spanning vastly different geographies.[103]

Following a presentation of the evidence base, jurors reviewed the evidence, thinking through various trade-offs, particularly around notions of fairness and possible impacts on regional inequalities, and were asked to consider, given the evidence, whether they believed greater fiscal devolution should be rolled out nationwide. Given that the three case studies encompassed different forms of fiscal devolution, on both the taxation and the spending sides, our findings do not allow us to infer attitudes around specific forms of fiscal devolution. Rather, we sought to infer the extent to which the jury supported greater fiscal devolution in the round.

A consensus view on fiscal devolution?

The vast majority (84%) of jurors determined that, in light of the evidence that they had reviewed, the Chancellor should expand fiscal devolution beyond the initial three local governments in the fictional scenarios to a full nationwide roll-out.

- Most jurors who voted in favour of greater fiscal devolution argued that since local governments have a clearer understanding of the needs and challenges of their areas than national government, they are better equipped to overcome barriers to the development of their local economies.
- Jurors were largely receptive to the suggestion that local areas should have greater control over tax and spend, and that devolution, in broader terms, was a good thing.
- Even though jurors understood that fiscal devolution is not a guaranteed route towards a reduction in geographic inequalities, nor is it guaranteed that it will lead to more effective local economic plans, on the whole they believed that the international evidence suggesting that fiscal devolution can contribute towards achieving these aims was clear.
- Another common argument made by those in favour of greater fiscal devolution centred on the idea of transparency and accountability – that local government existed closer to citizens, and that the powers bestowed on local governments could be better monitored and overseen by their respective local populations.

> **"Local governments know their local area the best and should have some sort of more control … raising tax if necessary."**
>
> Citizens' Jury participant

But while there was a clear majority view in favour of greater fiscal devolution in principle, it was also the case that most of the jury – 85% of jurors who supported fiscal devolution (72% of the whole jury) – supported greater fiscal devolution only with reservations. The following arguments were raised by participations with reservations, as well as people who did not agree with fiscal devolution:

103 In order to support participants to make informed judgements about how greater fiscal devolution might bear out across a wide range of geographic areas, we purposely developed scenarios for the following geography types: rural, coastal area, peripheral town, major city.

- Some jurors did not trust that local governments would be capable of managing new powers effectively and expressed worry around the potential for unchecked overspending, citing local examples of vast budget deficits, mismanagement and efficiency issues, as well as concern that greater fiscal freedoms could be abused through greater corruption.
- Others pointed to the difficulty in ensuring that fiscal devolution could help to contribute to fair growth, recognising the risk that if it was implemented poorly, inequalities between demographic groups and areas could become worse. One juror thought that the claim that fiscal devolution would lessen inequality was counterintuitive, as ‘each area would be in it for themselves’.

They shouldn’t have any more control as they do not have the expertise in a lot of cases and there are too many occasions when councils have gone bankrupt and spending has not been properly administered.

Safeguards, principles and conditions to ensure that fiscal devolution contributes to fair, inclusive growth

Following the fictional scenario exercise, the jury were invited to develop a set of requirements that the Chancellor could put in place to ensure that fiscal devolution produces fair economic outcomes.[104] These requirements can help inform policy to ensure fiscal devolution contributes to fair growth.

Table 10: Citizens’ Jury principles for ensuring fiscal devolution contributes to fair growth

	Jury recommendations: ‘Fiscal devolution must …’	Related policy proposition
Principle 1	**‘… be responsive to the views of local people’:** Local people must have a say in how the system works and decisions to tax and spend	Citizens must be able to provide input into local financial decision-making if tax and spending powers are devolved
Principle 2	**‘… ensure local and national priorities are balanced’:** Through robust and evidence-based oversight	Any future framework for fiscal devolution should set clear roles and expectations for both local and national government to ensure that their priorities are aligned towards achieving fairer economic outcomes, with new metrics developed to track progress over time
Principle 3	**‘… be well regulated and implemented with accountability measures’:** To ensure safeguards against corruption, inefficiency and mismanagement	Any new framework for fiscal devolution should contain clear regulatory and reporting requirements, clear processes for accountability at both the local and national levels, and enforcement mechanisms to guard against mismanagement
Principle 4	**‘… ensure transparency, and be open to public scrutiny’:** So that the public knows what is spent, where and why	Information, data and evidence about how revenue has been raised and invested by local governments should be transparent and made publicly available
Principle 5	**‘… build capacity to create a level playing field’:** Among local authorities by rebuilding local government capacity	Local governments with workforce capacity shortages must be given time and investment to develop their capacity to take on greater powers before being granted greater fiscal responsibility, to ensure that every area can take full advantage of the potential benefits of fiscal devolution

104 To develop these recommendations, polling or elicitation exercises were used by NatCen facilitators to formulate a list of recommendations in real time, which was then shared with participants (as a Google Form) in the final breakout session, discussed and voted on. Facilitators used prompts to engage discussion and capture the different views and perspectives from across the jury as they evolved in real time. However, in this session, participants were tasked to engage with the results and responses from the wider jury. In the first plenary feedback session, group representatives (often jurors themselves) summarised and shared room perspectives and were supported to build commonalities. An initial list of 13 consensual recommendations was developed as a result. Through further stages of polling, feedback and deliberation, a final list of five consensual recommendations was agreed by the jury.

Policy recommendations

5

CPP's modelling and analysis outlined above shows how spending will need to increase just for public services to stand still. Proactive policies to improve economic growth and limit inequality may, to some extent, come through reforms to existing services but will also likely require additional resource. It is only through investment and reform that we will be able to drag the UK out of its current malaise. Below we set out a package of measures to move the debate forward on how the UK can fund necessary future public services spending.

Funding fair growth: the role of taxation

Given the scale of public spending increases that are likely to be necessary over the coming decade and the cost of government borrowing, it is clear that higher taxes will have to play a part in ensuring such increases are sustainable. This is increasingly a consensus view among mainstream economists, including at the IFS and Resolution Foundation, and the OBR has forecast taxes rising as a proportion of GDP to reach a post-war high of 37.7% in 2027/28.[105]

> Given the scale of public spending increases that are likely to be necessary over the coming decade and the cost of government borrowing, it is clear that higher taxes will have to play a part in ensuring such increases are sustainable

Taxes on wealth will have a role to play in raising the tax base

Continuing to predominantly tax the working-age population is not a sustainable strategy for funding public services over the medium to long run. This group is a shrinking proportion of the total population and so would be required to pay increasingly high tax rates to fund healthcare and pensions, which are used mainly by the older population. Raising taxes on wealth is politically challenging and so government should look to areas where there is the lowest-hanging fruit first before opting for more radical or controversial reform.

105 OBR (2023) *Economic and Fiscal Outlook*. Available at: https://obr.uk/docs/dlm_uploads/OBR-EFO-March-2023_Web_Accessible.pdf

Recommendation 1: Equalise capital gains and income tax as an initial step towards increasing taxes on the largely unearned income generated from assets

When it comes to taxes on wealth, CGT is the most plausible initial target. Equalising CGT with the tax paid on income from work, while abolishing many of the current exemptions for which there is little evidence of macroeconomic advantage, could raise £10bn–20bn per annum. The Citizens' Jury was broadly warm to the idea that taxes on income from work and from asset sales should be treated equally. Meanwhile, the Conservative government has already started to effectively increase CGT by lowering the annual tax-free allowance from £12,300 in 2022 to £3,000 in 2024. The equivalisation of CGT with taxes on earned income may also need to be applied to taxes on dividends. This would be to prevent companies from changing the way in which they compensate shareholders, in order to avoid paying higher taxes on capital gains.

£10bn–20bn

Equalising CGT with the tax paid on income from work, while abolishing many of the current exemptions, could raise £10bn–20bn per annum

Recommendation 2: Reform ineffective tax reliefs to reduce deadweight loss and gain £8bn in government revenue per year

Depending on what is counted as a tax relief, the UK has more than 1,100 forms of relief,[106] at a cost of £400bn per year. While many of these reliefs are applied based on a clear social or economic case for maintaining them, for others the justification is weaker. For instance, this report has argued that there are several reliefs that are likely to suffer from large deadweight losses or otherwise contradict stated government policy – business asset relief, capital allowances for expenditure on new oil and gas developments, business property relief, and R&D tax credits. In total these reliefs cost around £8.1bn in 2024/25, and this is likely to rise over the course of the next parliament. The government should undertake a review of tax reliefs with a view to abolishing those that do not have a clear economic or social rationale. Tax reliefs should be subject to the same level of scrutiny as spending decisions, applying fiscal responsibility to policies that prevent money coming in as well as money going out.

£400bn

Depending on what is counted as a tax relief, the UK has more than 1,100 forms of relief, at a cost of £400bn per year

106 Miller, 'Tax reliefs'.

Recommendation 3: Consider a net wealth tax on millionaire households to fund one-off increases in spending – for instance funding the national wealth fund or big-bang retrofit of the housing stock

A net wealth tax on millionaires was the most-favoured wealth tax option among the Citizens' Jury. Such a tax could bring in significant revenue for a couple of years, with our option below estimated to bring in approximately £29bn per annum. But net wealth taxes cannot be used indefinitely – examples from across advanced economies show that net wealth taxes do not work for long, as wealthier households are able to move their money to avoid paying such taxes. As a result they should be seen as a way not to meet the long-term demands that will be placed on public services from population ageing but to fund short-term investments such as seed funding for the national wealth fund or to make a substantial dent in retrofitting the UK's housing stock. It would be administratively difficult to deliver, with asset valuations challenging. But as a one-off tax it has the potential to raise substantial short-term revenue, so it should be part of the mix of measures on the table. For this reason we recommend running the net wealth tax for a maximum period of two years.

- **How a millionaire's wealth tax would work:** The design could be based on a scenario devised by the LSE's Wealth Tax Commission, with a flat rate of 1% charged on individuals with a net worth of over £1m.[107] This means individuals whose total wealth after mortgages and other debts, and after splitting the value of shared assets such as a jointly-owned family home, exceeds £1m, and only on the value of wealth above that threshold. As an example, a wealth tax levied at 1% above £1m would require a couple to have net wealth of more than £2m before any tax needed to be paid.

Broader-based tax measures may also be required

The pressures on public spending are so acute that the next government may need to go beyond the tax recommendations in this report and consider increases to broad-based taxes such as those on income, earnings and VAT in order to maintain healthy public finances. But going broader in this way should only be done once wealth tax options and reliefs have been exhausted, to ensure greater fairness across the tax system and signal that the long-term burden of taxation will not just be placed on the working-age population.

107 Advani, A. et al. (2020), *A wealth tax for the UK, LSE Wealth Tax Commission*, https://www.lse.ac.uk/International-Inequalities/Assets/Documents/OLDWealthTaxCommission-Final-reportold.pdf

Increasing the accountability and pragmatism of spending decisions

The deliberation with our representative Citizens' Jury found a lack of consensus on whether balancing the books or investing in public services should take priority for the government. Participants thought that both were important and wanted fiscal rules to be more flexible and pragmatic to enable them to respond to current circumstances like the cost-of-living crisis. Previous work by CPP has set out some of the issues with strict fiscal rules and the evidence that they can constrain public investment, which – as we have set out above – will be required to achieve fair and sustainable economic growth.[108]

CPP recommend reforming fiscal rules to support fair and sustained economic growth while increasing the role and accountability of the OBR as an independent watchdog to bolster the UK's fiscal credibility

It is currently an expensive time to borrow money, due to both the high inflation rate and the high interest rate on UK government debt.[109] But governments should be designing fiscal rules for the long term, and the government should nonetheless maintain the ability to borrow to invest in the people, infrastructure and technology that will enable us to meet the challenges of the future and to increase our prosperity. In 1998, to boost stagnating public investment, Labour under Prime Minister Tony Blair adopted a novel 'golden rule' under which borrowing was only permitted for investment in capital like public buildings and equipment. We recommend a commitment to maintaining the golden rule, which was scrapped in 2009 and reinstated in 2021, only to be scrapped again. At the moment, not only do we not have a golden rule in place, but we do not have a deficit rule that distinguishes between current and capital spending. This amplifies the political incentives to cut investment. Committing to a golden rule would ensure that the longer time horizons involved do not mean that public investment is deprioritised, and that we avoid situations like the current one where collapsing schools are a threat to pupil safety.[110]

We also suggest extending the timeframe of the golden rule and OBR forecasting more broadly to allow borrowing for all spend that demonstrably and significantly enhances fair growth over the next decade. This approach recognises the importance of strategic policy decisions in levelling up the UK and that many of the UK's problems are chronic issues that need a policy horizon of at least ten years to bear fruit. It is similar to the approach that former Commercial Secretary to the Treasury Lord Jim O'Neill has advocated, but more focused on generating fairly distributed economic growth.[111]

It is worth noting that the OBR is currently undertaking a review of its approach to assessing the supply-side impact of policies, including how it should adjust output figures in response to

108 Fogden, R. (2023). *Changing the rules of the game: a fiscal framework for fair growth* (CPP). https://www.progressive-policy.net/publications/changing-the-rules-of-the-game-a-fiscal-framework-for-fair-growth

109 Source data: ONS (2023), 'Public sector finances, UK: August 2023', https://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/publicsectorfinance/bulletins/publicsectorfinances/august2023

110 Hinsliff, G. (2023), 'Collapsing schools are the latest sign of a crumbling country: and a lesson in Tory cost-cutting', Guardian, 5 September, https://www.theguardian.com/commentisfree/2023/sep/05/collapsing-schools-crumbling-tory-quick-fixes

111 O'Neill, J. (2023), 'We need urgent government investment rule changes to boost the UK economy', Independent, 6 August, https://www.independent.co.uk/voices/uk-economy-government-jim-oneill-rachel-reeves-b2388433.html

policies that affect the capital stock or labour supply, and the results of this review will impact its approach to the assessments suggested below.[112]

Recommendation 4: Extend the forecast horizon from five to ten years to avoid making bad policy for accounting reasons.

The UK's fiscal rules and the OBR's forecast horizon currently operate on a five-year time horizon, to reflect the length of a single term of parliament. However, many of the problems currently coming to the fore, like collapsing school buildings, are the culmination of longer-term problems: the money available for school repairs and maintenance has fallen by £2.2bn (28%) since 2010.[113] One of the most serious challenges to the public finances that lies ahead is rising pension liabilities, yet the measures required to tackle this issue, such as giving doctors more cash up-front in order to reduce their accrued pension rights, have a negative impact on the public finances at the five-year time horizon.[114] This recently led Chancellor Jeremy Hunt to make a hugely costly change by removing the lifetime allowance limit for everyone.[115] Hence, for long-term fiscal sustainability there is a strong case for making assessments over ten years rather than five so that accounting rules do not stand in the way of sensible policy changes. Even longer policy horizons may be required to see the long-term debt consequences of some infrastructure projects, including for example in the early years and transport sectors. Here, the OBR could be required to include priority infrastructure projects in its annual fiscal sustainability report, which takes a much longer-term perspective.

Recommendation 5: Reform fiscal rules so that capital investment and public spending that significantly enhance fair growth can be funded from borrowing

In practice this approach would mean submitting applications for non-capital spend to be badged in departmental budgets as 'investment' to the OBR, which would need to be resourced to respond to requests. For these appraisals, the emphasis would be firmly on fair growth, defined as growth that has a significant positive net impact on growth, which benefits people across the country and the income spectrum. This assessment would be made on the basis of distributional and local area impact assessments alongside the proposed policies' projected impact on GDP. For instance, there could be a requirement that policies seeking investment badging are assessed as having a neutral or beneficial impact on all groups in the bottom half of the income distribution and that local area analysis – which maps differential impacts and checks for alignment with wider strategic objectives for the area – must be included where relevant.

112 OBR (2023), 'Summer 2023 review of the supply-side effects of policies', 28 April, https://obr.uk/summer-2023-review-of-the-supply-side-effects-of-policies
113 Van de Merwe, B. et al.(2023), 'Concrete crisis: why are schools struggling to pay for repairs?' Sky News, 5 September, https://news.sky.com/story/concrete-crisis-why-are-schools-struggling-to-pay-for-repairs-12955595
114 OBR (2023) 'Fiscal risks and sustainability'. report. Available at: https://obr.uk/frs/fiscal-risks-and-sustainability-july-2023/#chapter-1
115 Forrest, A. (2023), 'Budget 2023: pensions boost as Jeremy Hunt ditches lifetime allowance', Independent, 15 March, https://www.independent.co.uk/news/uk/politics/budget-pensions-tax-allowance-hunt-b2301377.html

Box 8: CPP's proposed fiscal rule

Under this, policies could be funded from borrowing if:

1. They make a significant positive contribution to economic potential.
2. They have a net positive return over a ten-year time horizon.
3. They do not have a negative impact on groups in the bottom half of the income distribution.
4. Their spatial impacts are in line with government ambitions to reduce geographical inequalities.

Departments are already asked to complete distributional and local impacts analysis, but this framing would prioritise these elements, overlaying a strategic objective of fair, inclusive growth over pure cost–benefit analysis in line with the 2022 revisions to the Treasury's Green Book guidance on project appraisal.[116] This would help to ensure that the policy does not disproportionally favour projects that benefit the people and places already experiencing most of the UK's economic growth. One example of the type of policy that could be classified this way is childcare: the OBR has estimated that the Chancellor's extensions to childcare provision in March 2023 would add 0.2% to GDP by 2027/28 by increasing the labour supply.[117] This approach to classifying investment would be complementary to a more asset-based approach to the public finances, recognising the growth-enhancing potential generated by public assets ranging from railways and roads to clean air.

> Departments are already asked to complete distributional and local impacts analysis, but this framing would prioritise these elements, overlaying a strategic objective of fair, inclusive growth over pure cost–benefit analysis

116 CPP (2020), 'CPP response to changes to the Green Book', 25 November, https://www.progressive-policy.net/publications/cpp-response-to-changes-to-the-green-book

117 While childcare is an example of public spending that could be classified as investment under this system, the policy detailed by Hunt would not necessarily qualify as a net gain to the economy, because the package of measures aimed at increasing labour market participation was estimated to cost £7.1 billion a year by 2027-28 whereas 0.2% of UK GDP in 2027–28 is roughly £5–6bn. See the 2023 OBR *Economic and Fiscal Outlook*, available at: https://obr.uk/efo/economic-and-fiscal-outlook-march-2023/

Recommendation 6: Resource and mandate the OBR to cost manifestos for the main political parties ahead of the general election

This could include modelling the implications for public finances and growth projections over the next parliament, as the OBR currently does in its economic and fiscal outlook at each budget. Expanding the OBR's remit in this way would increase transparency and discourage the political gaming of the disconnect between rhetoric about growth and projections of its likely trajectory. If, for example, commitments to spend more on the NHS were not matched by the required tax take, it would be clear to commentators and the public that the government would have to borrow more. Conversely, if campaign commitments not to borrow or raise taxes would lead to public sector cuts and a return to austerity, this would also be exposed for public debate. There are precedents for this in several places, including Canada, where the PBO responds to requests from political parties and independent members of the House of Commons to estimate the financial cost of election campaign proposals in the run-up to general elections. Modelling the impact of an entire manifesto would be more resource-intensive but would need to be done in any case for the winning party when it entered office. The OBR and PBO currently have roughly similar budgets, with the PBO spending 6.5m Canadian dollars in 2022/23, equivalent to £3.78m, and the OBR spending £4.38m in 2021/22.[118]

> Expanding the OBR's remit in this way would increase transparency and discourage the political gaming of the disconnect between rhetoric about growth and projections of its likely trajectory

Costing election proposals is something that the OBR itself has previously said it would support. The OBR gave evidence on a similar proposal to the Treasury Committee in March 2014, at which time the head of the OBR said that they thought it would improve the quality of public debate, citing the positive experience of the Netherlands Bureau for Economic Policy Analysis, which already had this in place.[119] However, the reforms were not taken forward, as a 2015 Treasury review judged that it was not 'clear how costing manifesto proposals would contribute to the credibility of the UK's fiscal framework'.[120] Conversely, in Canada, the mandate of the PBO was extended in 2017 on the basis that it would raise the quality of parliamentary debate and promote greater budget transparency and accountability.[121] Raising the quality of parliamentary debate, and by extension public debate, in the run-up to an election is highly valuable and CPP recommends this change on that basis.

118 Figure in GBP estimated on the basis of exchange rates on 30 August 2023. Original figure available in Office of the Parliamentary Budget Officer (2023), *2022–23 report on the activities of the Office of the Parliamentary Budget Officer*, https://distribution-a617274656661637473.pbo-dpb.ca/01ff209f66e3a8395a41e2c474b083428482a068c0af4fb2a889f2889e8ed3e7

119 The issue was discussed at the Treasury Committee on 12 March 2014 at 2.37pm. A recording of this meeting is available at Parliament TV (2014), Treasury Committee: Wednesday 12 March 2014', https://www.parliamentlive.tv/Event/Index/1658d2c5-e3f9-41a5-b7f3-c5f5c62dbc70

120 Ramsden, D. (2015), *HM Treasury review of the Office for Budget Responsibility*, https://obr.uk/docs/dlm_uploads/HM_Treasury_review_of_the_OBR_03092015.pdf

121 Sections 79.1 to 79.5 of the Parliament of Canada Act provide for PBO responsibilities: https://laws-lois.justice.gc.ca/eng/acts/p-1/page-8.html#h-391047

Recommendation 7: Increase the accountability of the OBR to reflect its greater role through both increased visibility in parliament and greater scrutiny of its modelling

The recommendations above both increase the role of the UK's independent fiscal watchdog – the OBR – with the aim of increasing the transparency and pragmatism of government spending decisions, ensuring that they serve the mission of fair growth and are less susceptible to populist electioneering. This puts more responsibility in the hands of the fiscal experts who work at the OBR and will increase the political importance of their decisions. As long as the parameters that OBR staff work to are set by parliament, this should not pose a problem for democratic legitimacy. However, to acknowledge the significance of this transfer of power and enhance the democratic process, we recommend that the chair of the Budgetary Responsibility Committee (BRC) which runs the OBR is made more accountable to parliament. Making the chair – currently Richard Hughes – more visible will itself increase accountability, as politicians, officials and the public will know who is responsible for the OBR's analysis and decisions. The OBR already provides evidence to the UK Parliament through committee hearings to the Treasury Select Committee and evidence to the Scottish Parliament and the Welsh National Assembly. Making the OBR and BRC more visible and accountable could include increasing oral evidence at parliamentary select committee debates and updating the Memorandum of Understanding to define the OBR's relationship with the UK Parliament, including with individual MPs and Lords.

In addition, CPP recommends that a board of senior academics, practitioners and officials – including Bank of England economists and comparable to the Low Pay Commission commissioners – periodically reviews, tests and feeds back on OBR models, and that this review is made public, to reduce the risk of bias in results and decision-making.[122]

Supporting greater fiscal devolution

The difficulty in managing the risks associated with greater fiscal devolution is one of the principal reasons why the UK's system of governance remains so centralised. Yet as the devolution agenda persists, there is no question that calls for greater fiscal devolution will continue to grow louder.

While our Citizens' Jury overwhelmingly supported greater fiscal devolution, most jury members did so with reservations. However, the list of principles developed and agreed upon by the jury is a helpful steer for thinking about the design of any future proposals for greater devolution, and how to mitigate any downside risks that would exacerbate regional inequalities. Particularly, there is a need to bolster local government capacity following the sharp cuts of the austerity years, so that local government can become a key driver of growth in both national and local economies. There is also a need to strike a careful balance between redistribution between richer and poorer areas to account for the vastly different starting positions of different areas, and developing the right incentives that encourage local governments to prioritise growing their local economies.

122 More information about the Low Pay Commission can be found a Low Pay Commission (no date), 'About us', https://www.gov.uk/government/organisations/low-pay-commission/about

Recommendation 8: Devolve 2% of income tax receipts to local government, allowing the highest tier of local government in an area to retain 50%, with a further 40% redistributed and the remaining 10% used to invest in rebuilding local government capacity in lagging areas

Recommendation 9: Over the course of the next parliament, devolve 2% of VAT and corporation tax to local government, using a similar system to our recommendation on income tax, as part of a wider push to raise subnational spending to 30% of total government expenditure

Given that 95% of all taxation raised in the UK goes straight to the Exchequer, a logical next step towards fiscal devolution, without raising the overall tax burden, would be to devolve a proportion of current taxes collected by the Exchequer to local government.

We therefore recommend, as a first step, devolving 2% of income tax receipts, equivalent to around £5.6bn per annum based on the latest data, to local government, as part of a broader programme of reform moving towards the next stage of English devolution.[123][124]

Income tax, being one of the most straightforward forms of taxation to devolve according to analysis by the Institute for Fiscal Studies (IFS), would make it an appropriate first form of national taxation to be devolved to subnational government, from our starting point today.[125] Yet devolving a proportion of income tax to local government alone would not be enough to significantly shift the dial in terms of subnational government's share of total expenditure. Therefore, CPP also recommends that over the course of the next parliament, the government also considers devolving 2% of corporation tax and VAT, both in accordance with our suggested ratio. Taken together and based on the latest data, devolving 2% of income tax, corporation tax and VAT would increase local government budgets by around £11.8bn per annum.[126]

CPP is not the first to call for local government to be able to retain a share of existing national taxation locally, with think tanks such as the Centre for Cities, New Local and Onward, as well as organisations such as the Northern Powerhouse Partnership, making similar suggestions. But our recommendation goes a step further than retainment alone, in proposing an additional redistributive mechanism to compensate poorer areas to help level the playing field, as well as ring-fencing a proportion of revenues in order to support the development of capacity in local areas facing acute staffing issues.

Specifically, we recommend that the 2% of tax revenues devolved to local government is apportioned on the basis of a 50:40:10 ratio between retainment, redistribution and investment in capacity-building. This is broadly equivalent to allowing local areas to retain 1p in every

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123 Our analysis is based on the OBR forecasts from their most recent Economic and Fiscal Outlook, published alongside the Spring Statement 2023. Our analysis takes 2% of projected income tax receipts for the financial year 2024-25, in which the next general election is likely to take place: https://obr.uk/efo/economic-and-fiscal-outlook-march-2023/

124 Note that our recommendation does not suggest that these funds be withdrawn in order to be fiscally neutral, given that many of them are currently being deployed for different projects across the country. Rather, any additional grant funding administered through central government should form part of a single pot of revenue and capital funding for local government. See Bridgett, Pot luck.

125 Amin Smith, N., Harris, T., and Phillips, D. (2019) Taking control: which taxes could be devolved to English local government? The Institute for Fiscal Studies [IFS]. Available at https://ifs.org.uk/publications/taking-control-which-taxes-could-be-devolved-english-local-government.

126 Using OBR forecasts from their most recent Economic and Fiscal Outlook, this figure is derived from taking 2% of forecast receipts from income tax, VAT, and corporation tax, for the financial year 2026-27.

£1 of these taxes locally while a further 40% (0.8p) is redistributed and the remaining 10% (0.2p) is ring-fenced to support capacity-building. We also recommend that the highest tier of local government in an area – be that a combined, unitary or county authority – act as the lead authority, with responsibility for overseeing revenue spend based on a pooling of revenues accrued through lower tiers, in order to support more cohesive, cross-border local economic planning.

> Specifically, we recommend that the 2% of tax revenues devolved to local government is apportioned on the basis of a 50:40:10 ratio between retainment, redistribution and investment in capacity-building

The larger weighting towards retainment over redistribution is intentional, to ensure that poorer areas that receive a higher proportion of redistributed funds are not financially penalised for taking steps that encourage growth and raise tax receipts in their local economies. With an equal weighting between retainment and redistribution, there is a risk that poorer areas that receive revenue through the redistributive element, but manage to encourage growth and therefore see higher tax receipts locally, see no overall increase to their revenue.

Potential impact on local government revenues

Based on the most recent data and beginning with income tax, devolving 2% of income tax receipts would be worth £5.6bn per annum from next year, and based on our model, would break down to around £2.8bn for retainment, £2.2bn for redistribution and £560mn to build local government capacity.

The 40% redistributive element would also provide significant revenue boosts to poorer areas with weaker local economies. Based on an illustrative scenario using a funding formula that considers local GVA, IMD income deprivation and the percentage of the local labour force without an NVQ3+ qualification, Blackpool would see an initial revenue boost worth £34mn per annum, with 82% (£27.9m) coming through redistribution.[127] Kingston upon Hull would see a boost worth £62.2mn, with 79% (£49.3mn) coming through redistribution, and North East Lincolnshire would see a boost worth £31.3mn per annum, with 77% (£24mn) coming through redistribution.

127 To devise our formula, each labour market indicator is transformed into a standardised score (z-score), for each local authority area. The z-scores are then summed into a combined index, and all areas with a negative z-score (indicating above average across the three indicators) are removed. We then distribute the £2.28bn allocated for redistribution between the areas with a positive z-score, with areas' allocation determined by a figure derived from their z-score multiplied by their total employment count.

Table 11: Top ten areas where the redistributive element accounts for the highest proportion of total revenue

Highest tier authority	1% retainment	Redistributed element	Total revenue	Proportion of revenue (1% retainment)	Proportion of revenue (redistributed element)
Blackpool	£6,145,714	£27,856,677	£34,002,391	18.1%	81.9%
Kingston upon Hull, City of	£12,894,159	£49,328,428	£62,222,587	20.7%	79.3%
North East Lincolnshire	£7,243,547	£24,087,887	£31,331,434	23.1%	76.9%
Blackburn with Darwen	£6,479,369	£20,393,308	£26,872,677	24.1%	75.9%
Stoke-on-Trent	£12,937,212	£36,222,713	£49,159,924	26.3%	73.7%
Torbay	£5,951,978	£16,458,904	£22,410,882	26.6%	73.4%
North East	£54,235,116	£137,281,267	£191,516,383	28.3%	71.7%
Leicester	£16,036,976	£37,449,640	£53,486,616	30%	70%
West Midlands	£139,069,643	£322,838,698	£461,908,341	30.1%	69.9%
Tees Valley	£30,351,861	£67,738,858	£98,090,719	30.9%	69.1%

Based on our indicative modelling, the West Midlands Combined Authority would receive the largest funding boost, worth just over £461.9mn a year, while Greater Manchester and West Yorkshire follow with additional funding equivalent to around £363m and £259.2m a year respectively. With the exception of Essex, all of the areas, mostly CAs, also see the majority of their revenue come through the redistributive element, reflecting the vast spatial inequalities that exist even within CA areas. For this reason, we also suggest that CAs receiving significant revenue through redistribution should be explicitly accountable for ensuring that investments are spread broadly throughout their geographical footprint, in order to support greater convergence of their subregional economies.

Table 12: Top ten areas by total revenue boost based on CPP's illustrative modelling

Highest tier authority	1% retainment	Redistributed element	Total revenue	Proportion of revenue (1% retainment)	Proportion of revenue (redistributed element)
West Midlands	£139,069,643	£322,838,698	£461,908,341	30.1%	69.9%
Greater Manchester	£137,853,416	£231,155,774	£369,009,190	37.4%	62.6%
West Yorkshire	£113,776,426	£145,468,452	£259,244,878	43.9%	56.1%
Liverpool, city region	£76,159,492	£164,736,233	£240,895,725	31.6%	68.4%
South Yorkshire	£68,614,579	£123,849,377	£192,463,956	35.7%	64.3%
North East	£54,235,116	£137,281,267	£191,516,383	28.3%	71.7%
Essex	£75,728,969	£60,391,527	£136,120,496	55.6%	44.4%
Lancashire	£56,516,887	£62,239,502	£118,756,389	47.6%	52.4%
Kent	£76,008,809	£37,831,627	£113,840,436	66.8%	33.2%
Tees Valley	£30,351,861	£67,738,858	£98,090,719	30.9%	69.1%

Recommendation 10: Overhaul the system of local government finance in England, making multi-year finance settlements the default, consolidating existing and future local growth funding streams into a single pot of revenue and capital funding, and ending competitive bidding processes

The current system of local government finance in England is highly inefficient and not in any way conducive to supporting longer-term economic planning to drive local growth. Having the LGFS determined on an annual basis, as it is currently, provides local authorities with little certainty over future revenue streams. Neither has the significant rise of bid-based funding as a way of financing particular local projects had any positive effect on local areas' ability to develop cohesive economic plans. Instead, the rise in prominence of the so-called 'begging bowl' culture has contributed only to a major fragmentation of local government budgets that makes economic planning more difficult. More so, this has stifled the ability of local areas to catalyse greater private sector investment as tighter ring-fencing around funding limits scope to targeting investment directly towards local industrial need, absorbing risk to encourage business investment and developing long-term public–private partnerships.[128]

Positive steps to streamline local government finances through trailblazer devolution deals for Greater Manchester and the West Midlands must be expanded. Similarly, the 'Simplification Pathfinder Pilot', which will allow ten local authorities to pool three existing local growth funds, is a step in the right direction. There are several reforms that the next government could make in either the first 100 days or the first year of a new parliamentary term to streamline local government finance:

- Offer every Combined Authority a simplified, long-term funding settlement similar to those offered to Greater Manchester and the West Midlands in their trailblazer deals;
- Move the LGFS from an annual to a three-year cycle;
- Allow every local authority to consolidate existing local growth funds (e.g. Levelling Up Fund, Towns Fund, UKSPF) and combine future funding rounds into a new single pot of revenue and capital funding;
- Significantly reduce the prevalence of the competitive bidding model of funding local government, incorporating equivalent funding from central government departments into a new single-pot settlement that is allocated according to need;
- Enable the consolidation of 'local growth' funding streams administered by the Department for Levelling Up, Housing and Communities (DLUHC) with funds from other central government departments that have a positive impact on fair growth, e.g. Public Health Grant, Social Housing Decarbonisation Fund.[129]

128 Mudie, R. et al. (2023) *Open for Business: Unlocking investment in low-earning economies*. Centre for Progressive Policy (CPP). Available at https://www.progressive-policy.net/publications/open-for-business-report#:~:text=A%20new%20report%20by%20the,unlock%20billions%20in%20economic%20output

129 The full list of local growth funds currently administered by the department can be found at DLUHC (2023), 'DLUHC local growth and place fund register', 4 July, https://www.gov.uk/guidance/dluhc-local-growth-and-place-fund-register

Recommendation 11: Establish deliberative processes to inform possible routes towards greater fiscal devolution in England and the devolved administrations; citizens' juries or citizens' assemblies could feed into wider constitutional or policy review processes, building on the model of the Smith Commission on future devolution in Scotland in 2014 or the Silk Commission on devolution for Wales in 2011

While local government finance, devolution and local economic growth are inherently complicated subjects, the findings from our Citizens' Jury suggest that the public are more than capable of deliberating on the detail. These subjects are ripe for further deliberation because they are complex issues with salience, intersecting with other issues that people can have very strong opinions about, such as local government management, trust in local and national politicians, and how people think about citizenship and democratic participation in the UK. Our findings show that it is possible for a group of citizens from a wide range of backgrounds to develop informed views about a deeply complex subject, as well as to develop a consensus. This report has set out some initial steps for how greater fiscal devolution could be pursued in England in a way that reflects the principles of fairness as developed by our Citizens' Jury. Yet there were other areas of the debate – particularly around the idea of local leaders being able to levy their own taxes or diverge from national rates of taxation – which our jury did not address in significant depth. More so, the very different and equally complex systems of local government finance across Scotland, Wales and Northern Ireland were beyond the scope of our jury session.

For this reason, we recommend that Whitehall, as well as the devolved administrations of Scotland, Wales and Northern Ireland, establish deliberative processes to explore possible options to move towards greater fiscal devolution.

Transforming the UK economy over the next parliament: While some of our recommendations could be designed and implemented within the first phase of the next parliament, this is not the case for all. For instance, a one-off net wealth tax could not be used on a repeat basis, so policymakers may want to be strategic about the timing of when they might wish to implement one. Others, such as devolving 2p in every £1 of VAT and corporation tax to local government, may be better phased in after beginning with income tax, in order to see whether there are any unintended effects of the policy and develop stronger safeguards as a result. That said, it is more than possible for most of our recommendations to be designed and implemented within the first 100 days to a year of the next parliament, which would lay the foundations for delivering transformational economic change over the subsequent years.

Table 13: Recommended timetable for implementing our tax and fiscal policy reforms over the course of the next parliament

Proposed policy	2024/25	2025/26	2026/27	2027/28	2028/29
Recalibrating the tax system					
Implement a one-off net wealth tax					
Equalise capital gains with income tax					
Review existing tax reliefs					
Implement tax relief reforms					
Reforming fiscal rules					
Implement reforms to enable borrowing for capital investment and public sending that significant enhances fair growth					
Extend the forecast horizon from five to ten years					
Resource and mandate the OBR to cost manifestos for the main political parties ahead of general elections					
Increase the accountability of the OBR to parliament					
Establish a modelling council to enable greater scrutiny of the OBR's modelling					
Delivering greater fiscal devolution					
Overhaul England's system of local government finance					
2% income tax					
2% VAT and corporation tax					
Deliberative processes for fiscal devolution					

Conclusion

The breadth of the recommendations set out in this report, spanning different elements of the tax system as well as the different rules and structures underpinning the UK's fiscal policy, provides credible options to an incoming government. Given the state of public finances, we have recommended a targeted policy package to pursue fair growth over the next parliament, prioritising growth-enhancing and inequality-reducing investments. We have also demonstrated how these might be funded, through a fairer and more sustainable tax system or though changing the rules that govern central and local government spending.

The fiscal projections laid out at the start of this report show how dire the public finances facing the next government are likely to be. On current trends, the government could face substantial annual budget deficits, with a deficit of around £135bn (over 5% of GDP) in 2030. A deficit of this level is unsustainable over the long run and implies taxes rising to around 38.8% of GDP in order to halve the deficit by the end of the decade and put us on a more sustainable fiscal footing. But even this picture of the public finances may be optimistic if any number of plausible risks materialise. For instance, if the labour market participation of typically older and low-skilled working-age people continues to fall, or we return to 'cold war' style defence spending, the deficit figure and necessary tax rises could be higher.[130]

It is crucial that against this backdrop we continue to make proactive reforms and investment to put the UK on a path towards fair and sustainable economic growth rather than paring back an already threadbare state. CPP estimates that at least £19bn per year will be needed by 2030 to invest in preparing industry and the workforce for the transition to net zero, expanding access to affordable childcare, rebooting local public health and investing in the education of children from low-income families. Significant sums of money may also be required to support local government to simply survive over the short term, and prohibitively high borrowing costs mean that there are no easy answers.

While our politicians appear to hope that the pressures facing the next government can be addressed through reform and a return to growth, thereby avoiding higher spending and taxation, the reality is likely to be different. Given what is anticipated to be a challenging global economic and geopolitical environment and continued demographic change, without additional public investment, there is likely to be a further degradation of public services that will ultimately harm our economy. As we have argued in this report and elsewhere, many public services underpin our productive capacity and are core drivers of growth. If the next government is to make progress on reversing our economic stagnation, it must commit to greater investment to rebuild the productivity capacity of the economy. This report sets out a credible, wide-reaching plan to deliver higher levels of public service investment in a way that is fair, sustainable and well targeted and that could command broad public support.

> If the next government is to make progress on reversing our economic stagnation, it must commit to greater investment to rebuild the productivity capacity of the economy

130 Under the OBR's downside scenario in the 2023 fiscal risks report, tax receipts are £10.9bn lower due to fewer people in employment and lower pay. OBR, 'Fiscal risks and sustainability'.

Appendices

Appendix 1: Citizens' Jury rationale and methodology

National Centre
for Social Research

A deliberative approach to understanding public attitudes to funding the UK's future investments

Project overview

The Centre for Deliberation was commissioned by the Centre for Progressive Policy (CPP) to design a deliberative research project to explore and understand public attitudes towards funding the UK's public investments in the future. This research supported CPP's existing programme in this area, which is a feature in its ambitions towards inclusive economic growth. The research was delivered drawing on a Citizens' Jury model which convened, between 19 July and 5 August 2023, a group of people broadly reflective of the UK's various publics, to consider evidence and make decisions on options to fund the UK's future investments, including wealth taxes, excess profits tax, fiscal rules and fiscal devolution. Altogether, 39 people deliberated over a period of ten hours online, with the final jury session delivering decisions on wealth taxes and fiscal devolution. In this document, we set out and explain the 'jury-type' method we employed for this project.

The Centre for Deliberation: our work

The Centre for Deliberation generates evidence that policymakers and citizens can use to inform, engage with and transform complex social issues. We do this by helping people and institutions have conversations with the right information, time and conditions to enable the public to play a more significant role in solving the biggest problems facing our society. The Centre works in the context of democratic innovation and draws on the principles of deliberative democracy to shape what we do and the impact it can have. We have worked with government departments, including DEFRA and BEIS, NGOs, and thinks tanks, to produce democratic and solutions-focused research on subjects ranging from the UK's governance after Brexit, net-zero policies and the social impacts of climate change, COVID-19 health inequalities, and the housing emergency in the UK.

We employ a variety of deliberative methods, which we tailor to meet the needs of commissioners and context of the research. For this project, we employed a Citizens' Jury model as a tool to explore and delineate public attitudes towards funding the UK's future public investments. Using a Citizens' Jury as a research tool gave us the flexibility to explore public attitudes on topics that are not as well defined with the UK public as many other policy areas. For instance, while taxation is a well-developed policy issue, and there is deliberative research in this area,[131] the topics of fiscal rules and fiscal devolution are not as clearly envisaged by policymakers and conveyed to the general public. Once these areas became more defined after the learning sessions, the Citizens' Jury model gave us the tools to ascertain how an informed public might make decision on topics related to this enquiry, which informed CPP's policy agendas.

131 See, for instance, Britain Thinks (2014), *Taxation in the UK: A Citizen's View*, PwC, https://www.pwc.co.uk/issues/futuretax/assets/pwc-tax-citizens-jury-final-report300631.pdf

What is a Citizens' Jury?

A Citizens' Jury is a deliberative research and engagement method in which a representative sample of the public consider evidence on an emerging policy issue before passing judgement or making recommendations that can inform that policy.[132] Citizens' Jury models are often used by a range of institutions (governmental, think tanks, academics) to gain citizen input into policy, especially during early policymaking stages. They are understood to bring an informed citizen perspective on difficult or contentious issues, and as good models for developing robust and consensual priorities for topics such as education, social inclusion policies, net-zero/carbon taxation and immigration.[133]

Citizens' Juries have a set of common features or characteristics, such as:

- Recruiting a random, but representative, small sample (local or national) of the public to act as the jury, usually between 12 and 20..
- Considering a specific question on a topic on behalf of the public they represent.
- Introducing the jury to evidence and expert stakeholders (or 'witnesses') who unpack arguments to jury members.
- Allowing time for the jury to deliberate on the topic area by running a session over several meetings, sometime several days.
- Reaching an outcome, not necessarily a strictly unanimous decision, on the policy area under review, such as advising on what policy area to take forward or recommending how an initiative should be implemented.
- Using this outcome to generate a wider public debate or engagement campaign with the local or national community, through publishing a report or media announcements.

Our Citizens' Jury research approach

Our project convened a Citizens' Jury to consider policy options that that CPP has identified might produce 'fair economic growth'[134] when funding UK public investments in the future, to explore attitudes in these areas, and engage the jury to input into developing them. These topics included specific tax-raising options (wealth taxes, excess profit taxes) as well as fiscal rules (the rules that set out how governments tax, borrow and spend) and fiscal devolution, which means giving more powers to local authorities to tax and spend in local areas. As CPP was interested especially in identifying areas of agreement in public opinion that would support 'fair economic growth' for the whole of the UK, we purposively recruited to ensure a reflective sample of the population, including social and demographic groups (ethnic minorities, lower-income households) to ensure we invited as wide a range of perspectives as possible.

The jury took place over four meetings and developed knowledge through a structured, iterative process. We collaborated with CPP, which led on the evidence-gathering for these topics and took on expert presenting roles. The Centre for Deliberation maintained oversight of all project design and delivery, ensuring that a range of evidence and perspectives were relayed to the public. The jury received briefing materials before each of the learning sessions, which clearly summarised

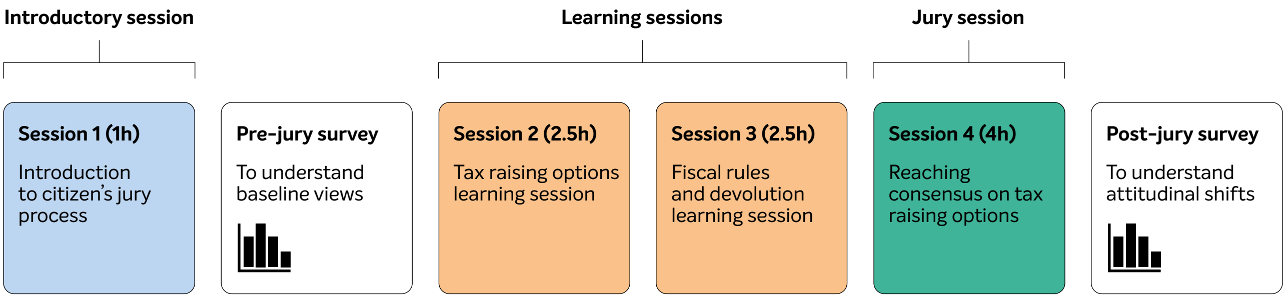
132 For more on the origins and development of the Citizens' Jury, see Participedia (no date), 'Citizens' Jury', https://participedia.net/method/155

133 Wolf, M. (2023), 'Citizens Juries can help fix democracy', Financial Times, 28 May; Delap, C. (2001), 'Citizens Juries: reflections on the UK experience', PLA Notes 40: 39–42, https://www.iied.org/sites/default/files/pdfs/migrate/G01309.pdf; Smith, K. E. et al (2021), 'Public understandings of potential policy responses to health inequalities: evidence from a UK national survey and citizens' juries in three UK cities', Social Science & Medicine 291: 114458, https://pubmed.ncbi.nlm.nih.gov/34655938

134 We worked with the CPP's definition of 'fair economic growth' – growth that is experienced across the income spectrum and in all places.

and laid out the arguments for and against the policy interventions under discussion. During the sessions, facilitators supported them to share their views, identify areas of confusion or ambiguity, and seek clarification from the CPP experts who engaged with participants in their breakout rooms. This equipped them with the knowledge they needed to make decisions in the final session on two areas of policy: wealth taxes and fiscal devolution.

Figure A1: The structure of Citizens' Jury sessions



In this final session, we asked the Citizens' Jury to reach a consensus on specific aspects of these topics. CPP had selected three wealth tax options that it assessed could produce fairer economic outcomes for the UK population. We asked the jury to select the one that they thought would produce the fairest outcome. We also asked the jury to determine whether fiscal devolution should be implemented across the UK and, if so, what safeguards should accompany it. We defined consensus as a decision constituted by a set of broadly (but not universally) held views, cultivated through open discussion in which differences are aired and recognised. Through stages of discussion and decision-making, we encouraged the jury to reach decisions that could accommodate a wide range of perspectives and which acknowledged differences of opinion. We identified consensus in some areas – for instance, that the jury was largely favourable to fiscal devolution under a set of conditions – but did not achieve consensus in others (e.g., wealth taxes). This approach also recognised the range of differences of opinion and perspectives that remained, even when agreement was reached. These are set out and explored further in the report.

Citizens' Jury overview

Participation

- **Reflective of a diverse UK population:** Our final jury session brought together 39 participants from different backgrounds. More than half (20) of participants came from an ethnic minority background, and there was broad representation from regions and nations across the UK.
- **Broad Social Base:** A significant number of participants (38%) came from lower monthly income bands (up to £2,000). The jury included a range of educational attainment – 21% had qualifications below A-level, 41% had A-levels, and 38% had an undergraduate degree or above.

Wealth taxes: findings

- The jury did not reach a consensus on which wealth tax option would achieve fairer economic outcomes. There was a split in opinion – with marginally more people preferring a one-off millionaires' wealth tax to aligning rates of capital gains with income tax rates.

- Taxation options remained hard for the public to assess. There remained some confusion over the tax options they reviewed, which we had seen in the learning session. Some people, for instance, continued to interpret CGT as a tax on property. Others continued to voice reservations about the suitability of 'fairness' as an analytic category applicable to taxation.
- The jury were opposed to a lifetime gifts tax. Most people had reservations about inheritance tax and did not think a lifetime gifts tax was any fairer.

Fiscal devolution: findings

- **The jury favoured greater fiscal devolution**, with 84% in favour because they felt this would produce beneficial and fairer economic outcomes and give more control to local people. But most people (76%) also had 'reservations' about how fiscal devolution could be properly implemented to make it effective and fair for everyone in the UK.
- **The jury agreed on areas for future implementation.** The jurors agreed on five overarching recommendations which they felt should accompany future fiscal devolution. These included ensuring fiscal devolution:
  - Responds to the views of local people;
  - Ensures a fair balance between local and national priorities;
  - Is regulated and implemented with accountability measures;
  - Is transparent and open to public scrutiny;
  - Builds capacity (in skills and infrastructure) equally among local authorities.

Future deliberative research on fiscal devolution

- **A complex topic:** Fiscal devolution is ripe for further deliberation because it is a complex topic, which intersects with other issues that people can have very strong opinions about, such as local authority management, trust in local and national politicians, and how people think about citizenship and democratic participation in the UK. Our research shows that developing informed views helped to ease division and contributed to developing consensus in this area.
- **Need for consultation:** Our research also indicates that people will want a say in how this policy is developed and implemented. Citizens' Jury and Citizens' Assembly models may have a part to play in future consultation processes at different policy stages, locally and nationally.
- **Further deliberative research**: We recommend that further deliberative research should develop the findings from this project, so that we achieve a clearer view of citizen needs and expectations: for instance, what sort of taxation powers citizens would like to see devolved to local authorities, or what kind of consultation processes should be put in place.

Appendix 2: Modelling public spending required to 2030

The public spending projections in this report rely on vector autoregression (VAR) to develop a general forecasting model, using time series data for all variables in the dataset. The choice of the method was driven by the need to model dynamic multivariate time series, capturing the dynamic interactions and feedback effects among multiple variables. The modelling exercise involved projected public spending trends for the period 2023–30 for health and social care, social protection, education, transport, housing, environment, total public spending and government revenues. The analysis relied on data from the years 1999–2022, and each variable was adjusted for inflation based on 2021/22 prices. The main explanatory variables in these models were share of elderly population, wage, productivity and gross disposable household income. Specifically for health, spending on research and development as a share of GDP was also included as an explanatory variable, to serve as a proxy for technological advancement, which is potentially a key determining factor of health spending. Government revenue projections also used GDP as an independent variable.

The estimation processes were run by first-differenced variables to avoid the common problem of stationarity in time series data. To ensure that there were no spurious estimates, the variables were examined on the Dickey–Fuller unit-root test. The analysis was also examined for autocorrelation using the LM and Durbin–Watson tests. These projections were viewed as consistent with the expected results of forecasting and other literature in the area also served as a source of sense check. The estimation results of the VAR model were also examined for accuracy, based on in-sample and out-of-sample testing.

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Full responsibility for the report and its content remains with the authors.

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The Centre for Progressive Policy is a think tank that champions inclusive economic growth. We believe that economic growth is a force for good: it is essential for raising living standards, and it can and should be delivered in line with the path to net zero. But the default model of 'growing the pie' first and redistributing the proceeds later does not work. The benefits of growth do not trickle down, and efforts to reduce high and rising inequalities through taxation and welfare only take us so far. Instead, we need a model of economic growth that unlocks the productivity potential of all people and all places. At CPP we call this model inclusive growth.

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