

2016 Budget Representation

To: HM Treasury

By: The Intergenerational Foundation

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The Intergenerational Foundation (www.if.org.uk) is an independent think tank researching fairness between generations. IF believes policy should be fair to all – the old, the young and those to come.

Introduction:

The Intergenerational Foundation (IF) welcomes the opportunity to suggest policies for inclusion in the 2016 Budget. We strongly believe that the interests of younger and future generations are being neglected in current government policy, and call for reforms which would address the growing imbalances between the generations. Our research agenda spans a number of different policy areas for which our recommendations have been set out below:

Housing

1) Create a permitted development right for subdividing large homes into smaller ones

IF is deeply concerned that the rise in house prices over the past 25 years has created enormous problems for today's young people with finding housing that's genuinely affordable in the areas where they want to live. While IF is glad that the government has made addressing the housing crisis a priority, additional measures to boost supply are urgently needed to meet the target of building 1 million new homes by 2020.

In a forthcoming research paper, *Unlocking England's Hidden Homes*, IF calls for the creation of a new householder permitted development right which would enable people living in large homes to subdivide them into multiple smaller properties with only prior approval rather than full planning permission. The report estimates that there could be as many as 4.4 million homes in the country which would be suitable for subdivision, and it would be particularly useful as a means of enabling older people who want a smaller home to "downsize-in-situ" without having to leave their existing communities.

2) Reform Council Tax

As the UK's main tax on housing occupation, Council Tax has a very large impact on shaping how people use England's existing housing stock. IF believes it is flawed in a number of ways: the bands haven't been updated since 1992, smaller properties pay a higher rate (as a percentage of their value) than larger ones, and single occupiers receive a 50% discount, which encourages inefficient under-occupation.

This is such an important tax that improving how it operates should be a priority for government. Therefore, IF recommends a number of possible reforms which would address the flaws highlighted above: a complete revaluation of England's housing stock to make the bands representative of modern property values, removing the 50% discount on single occupation to promote greater efficiency (this could be phased-in on higher value properties to begin with so that poorer households would have time to adapt), and imposing *higher rates* of Council Tax on empty and second homes (which attracted discounted rates until quite recently) to reduce the desirability of owning multiple homes when young people have an affordability crisis.

Tax/Welfare

3) Recognise need instead of age

The main criticism of the UK's current welfare state from an intergenerational perspective is that it redistributes too many resources purely on the basis of *age*, when there is clear evidence on the changing demographics of poverty in the UK which demonstrates that this is an increasingly inaccurate proxy measure for economic *need*. Since 1990, pensioner households have gone from being the group with the highest levels of poverty compared to children and working-age households to that with the lowest levels. IF strongly believes that redistributing according to economic need ought to be the guiding principle of any equitable welfare system, so remedying this flaw should be the main focus of future reforms.

4) Make small adjustments to taxes and benefits for pensioners

Recognising that wholesale reforms to the welfare state of the kind that IF advocates are unlikely under the present climate, we have recently called for a number of small adjustments to the tax and benefit regime affecting pensioners which would go some way towards saving public money and creating economic rebalancing between the generations.

These proposals are explained in more detail in [IF's submission to the Work and Pensions Select Committee's public inquiry into Intergenerational Fairness](#), but in short they include: extending National Insurance contributions to cover the 1.2 million older people who now continue working beyond State Pension Age (to combat the unfairness of two people with the same salary being taxed differently simply because of their ages), harmonising eligibility for all age-related benefits with State Pension Age (people currently receive free prescriptions from age 60, which makes the policy unnecessarily expensive when this is intended to be a pensioner benefit) and increasing the State Pension Age more rapidly (to reflect the continuing growth in life expectancy and mitigate the costs of our ageing population).

5) Invest in using "Big Data" to make means-testing more efficient

As stated above, IF strongly supports the principle that government redistribution should be guided primarily by economic need rather than age or any other proxy measure. Unfortunately, this makes a necessary evil of means-testing, which many people object to on the grounds that it adds additional cost and complexity to the welfare system while stigmatizing welfare beneficiaries. However, IF believes that these criticisms too often overlook the fact that a system based on means-testing should enable the fairest possible allocation of welfare resources across society.

IF is concerned that one of the reasons why so many critics dismiss the idea of means-testing in principle is because in the past it has often been implemented in ways which were excessively bureaucratic and inefficient. However, with modern IT resources it should be possible for the government to build up an accurate picture of what every

citizen is currently earning in real-time, which would eliminate the need for means-testing to involve lots of complicated form-filling on the part of the public. Therefore, in order to make the welfare system more efficient, IF advocates that HM Treasury should hold an official inquiry into how “Big Data” could be used across government departments to make the implementation of means-tests easier and more efficient.

Energy

6) Cancel the Hinkley Point C project and invest more in clean energy

IF strongly opposes the proposal to build a new nuclear reactor at Hinkley Point in Somerset. Our objection to this project is founded on a) its extremely high fixed costs relative to alternative forms of low-carbon energy, such as wind and solar, which today's young people and their children will be forced to pay for many decades into the future, and b) its potential environmental impacts on future generations, who will have to deal with the radioactive waste it produces and who will be severely constrained in their future choices about energy policy by the long-term pricing structure that Hinkley Point ties them to. There is strong evidence to suggest that nuclear power is neither economic nor genuinely “low carbon” (once the environmental impacts of mining and transporting nuclear fuels are taken into account), so IF believes it represents a wasteful use of public money that will be hugely damaging to future generations.

Democracy

7) Allow 16- to 18-year olds a vote in the EU referendum

IF strongly favours the enfranchisement of people aged 16 to 18, as this group contains many people who are actively engaged in politics and deserve the opportunity to express their views at the ballot box. There is a particularly strong case for allowing young people to vote in the upcoming EU referendum, as they have more of a stake in the future of Britain's economy and society than older members of society do, as they will have to live with them for longer. There is also some evidence to suggest that as a group they may be more supportive of European integration than some older age cohorts are, so it is important to allow them to express their views. Therefore, IF believes that the franchise for the EU referendum should be extended to all people who will be aged over 16 on referendum day, in recognition of the fact that whether the UK leaves the EU or not is a highly intergenerational matter.

Education

8) Give students real time access to how much they owe

IF is highly concerned that young people now have to take on such high levels of student debt in order to access higher education, compared to what previous generations were asked to pay. One of the most fundamental problems with the student loans repayment system is that it is often extremely difficult for students, once they have graduated, to get a timely and accurate statement of how much they actually owe. Therefore, IF strongly believes that the Student Loans Company should be required to provide all borrowers with a real time statement of their total outstanding debt level, in order to aid their financial planning for the future.

Conclusion

If you would like to learn more about the work of the Intergenerational Foundation or would like to organise a meeting to discuss the points we raise further, please contact:

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