

2018 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 2018 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 the housing crisis a priority, additional measures to boost supply are urgently needed to build the homes that Britain needs.

In our research paper [Unlocking England's Hidden Homes](#), IF called 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 estimated 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) Rebalance welfare spending to reflect the problems facing young adults

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. This goes against the general direction of welfare reforms over the past decade, which have substantially increased the real value of pensioner benefits (primarily the state pension through the "triple lock") while benefits for people of working-age have borne the brunt of government austerity measures.

Unfortunately, reforming the welfare state so that there is a much closer relationship between someone's eligibility for benefits and their actual economic circumstances makes means-testing a necessary evil, which many people object to on the grounds that it adds additional cost and complexity to the welfare system while stigmatising 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.

4) Make people who work beyond State Pension Age pay National Insurance Contributions (NICs)

As IF argued in our recent research report, [*An extraordinary anomaly*](#), we strongly believe that exempting people who choose to work beyond State Pension Age (SPA) from having to pay NICs is a loophole that urgently needs closing. Our estimates suggest that there are now at least 1.2 million people working above SPA (the real figure could be far higher as this figure excludes the self-employed), and if they were liable to pay NICs with the same rates and thresholds which apply to working-age people then at least £1.5 billion of additional revenue could be raised to help fund the adult social care system, which appears to desperately need additional resources. Our report demonstrated that there is a substantial political consensus behind this reform, as it reproduced quotes from prominent figures within all three of the major political

parties who have called for it to be implemented in recent times.

Energy

5) Reform the taxation of offshore oil and gas

IF argued in our 2018 research paper [Rigged: how the UK oil and gas industry is undermining future generations](#) that the tax treatment of the North Sea oil and gas industry is harmful to today's younger and future generations. This report drew attention to the way that the government is continuing to support the further exploitation of the North Sea oil and gas fields by making tax relief more generous to the sector, even though the government has committed itself to substantially reducing the UK's carbon emissions.

In his 2015 Budget speech, the then Chancellor of the Exchequer, George Osborne, unveiled a package of measures which were designed to boost North Sea oil and gas production by making its tax treatment more generous. This included reducing the Petroleum Revenue Tax from 50% to 35% and slashing the additional supplementary tax on the sector from 30% to 20% - measures worth a combined £1.3 billion subsidy that were expected to increase oil production by 15% by 2020. As North Sea oil and gas production contributes significantly towards toxic air pollution during both the harvesting of these commodities and when they are actually consumed by being burned or processed into other products, the report argued that these subsidies contribute to the burden of air pollution in the UK. One of the ways in which the problem of air pollution could be mitigated would be if the government sought to curtail North Sea oil and gas production as rapidly as is economically feasible, an outcome which would also contribute towards achieving its wider objective of fighting climate change.

Higher Education

6) Make the higher education funding system fairer to students

IF has long been critical of the post-2012 higher education funding system in England, which we believe is placing an excessive economic burden on young adults. The average student now graduates from university with debts of £50,800, burdening them with an additional tax rate of 9% on earnings above the repayment threshold for the next 30 years. Universities are supposed to be engines of social mobility, yet the replacement of maintenance grants with loans means that the students who come from the poorest backgrounds now graduate with the largest debts, while forthcoming IF research demonstrates that 16% of students at English universities (who come disproportionately from wealthy backgrounds) are completely avoiding being saddled with student debts by having their families pay for their tuition fees up front.

Although the ongoing review of post-16 education will be making its own recommendations about the future of higher education funding, IF would like to see significant changes to the current system, and believes the government should:

- Stop charging students interest of RPI plus up to 3% (which means students enrolling at English universities this year will pay 6.3% interest while they are still studying) when this is substantially higher than the interest rate on government gilts (i.e. the cost to the government of borrowing the money that they are then lending back out again to the students), which is around 2.5%. Interest on student loans could be reduced by changing the measure of inflation which is used to calculate the rate of interest from the Retail Prices Index (RPI) to the Consumer Prices Index (CPI), which would also be fairer because this is widely considered to be a more accurate measure of inflation;

- End the practice of charging students the full amount of interest (currently RPI plus 3%) while they are still studying at university, as there is no justification for charging them the extra 3% when this is supposed to be means-tested on the basis of their earnings and they haven't started working full-time yet;
- Give every student and graduate the ability to view exactly how much they currently owe, how much interest they are being charged and the amount they have currently repaid in real time through the Student Loans Company website;
- Reduce the 9% repayment rate on graduate earnings above the repayment threshold, as this limits the disposable income of young workers who are already under an enormous amount of financial pressure from high housing costs and stagnant wages;
- Bring student loans under the auspices of the Consumer Credit Act 1974, which would protect borrowers from the terms under which they originally took out their student loans being revised in ways that were unfavourable to them. This is necessary because the government has already reneged on the original terms of student loans once when it chose to freeze the student loan repayment threshold in 2015 rather than allowing it to rise in line with inflation, which made repayments more expensive for borrowers.

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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