Save to spend

November 2020

TaxPayers' Alliance

Executive summary

The need to balance the government's books in the wake of the coronavirus pandemic can only mean one of two fiscal policies: spending restraint or tax rises. A significantly weakened economy and the fact that recent increases in the tax burden have already created the highest burden in over 50 years means that tax rises cannot be an option. Instead, any fiscal tightening must come from spending restraint.

The Comprehensive Spending Review 2020 presents an opportunity to limit extraneous items of spending. Far higher planned levels of gross capital investment during the course of the parliament – and the government's 'levelling-up' agenda – add further urgency to the task of identifying savings. These can be put to better use in more effective spending or providing targeted tax cuts aimed at recovering lost employment and enhancing productivity.

Now is probably too soon to tighten fiscal policy because of the pandemic and the economic weakness it has brought about. But that is no reason to tolerate unnecessary spending because tax cuts – especially those targeted at investment and jobs[1] – are sorely needed and can be made possible by spending restraint. In addition, now is the time to be planning ahead for when action on spending will be required to eliminate the deficit and bring debt levels back down

The Comprehensive Spending Review must identify savings now to unlock future opportunities for sensible spending commitments and much-needed tax cuts.

Fifteen policy changes could deliver total annual savings of £43 billion next year, rising to an estimated £73 billion by 2025-26. Estimated savings are in the table below.

Table: fifteen savings projections, 2021-22 to 2025-26 (£ billion)

		2021-22	2022-23	2023-24	2024-25	2025-26
1	End national pay bargaining	1.8	3.6	5.7	7.9	10.3
2	Defund the Arts Council	0.5	0.5	0.5	0.5	0.5
3	Raise the state pension age	1.6	3.4	5.5	7.8	10.1
4	Scrap the Christmas bonus	0.2	0.2	0.2	0.2	0.2
5	Scrap winter fuel payments	2.0	2.0	2.0	2.1	2.1
6	Scrap older people's bus passes	1.2	1.2	1.3	1.3	1.4
7	Reform the triple lock	4.0	4.2	4.5	4.7	4.9
8	Reform student loan terms	3.2	3.4	3.5	3.7	3.8
9	Reform the Barnett formula	5.7	5.7	5.8	5.9	6.0
10	Cap annual leave	3.1	3.2	3.3	3.5	3.6
11	Scrap foreign development aid	15.1	15.6	16.2	16.9	17.5
12	End union facility time	0.1	0.1	0.1	0.2	0.2
13	Cancel farm spending plans	0.7	1.4	2.2	3.0	3.8
14	Spread government across Britain	0.0	0.1	0.1	0.1	0.1
15	Freeze public sector pay	3.8	7.7	8.0	8.3	8.7
Total		**42.8**	**52.5**	**58.9**	**65.9**	**73.2**

[1] For more details, see TaxPayers' Alliance, Tax reforms to secure a recovery from coronavirus, June 2020, www.taxpayersalliance.com/tax_reforms_to_secure_a_recovery_from_coronavirus, (accessed 18 October 2020).

15 savings in brief

1. End national pay bargaining

Ending national pay bargaining could help 'level up', while saving £1.8 billion in 2021-22, rising to £10.3 billion in 2025-26.

2. Defund the Arts Council

Scrap Arts Council funding to save an estimated £481 million in 2021-22.

3. Raise the state pension age to 68 by 2028 instead of 2046

Raising the state pension age to 66 years and 3 months on 6 April 2021, and another 3 months each year until it reaches 68 in 2028. This could save around £1.6 billion in 2021-22.

4. Scrap the Christmas bonus

Scrapping the Christmas bonus could save £163 million a year in 2021-22.

5. Scrap winter fuel payment

Scrapping the winter fuel payment could save £2 billion a year in 2021-22.

6. **Scrap older person's bus passes**

Scrapping free bus passes for older people could save £1.2 billion next year.

7. Reform the triple lock

Reform the triple lock by adjusting the 2.5 per cent lock to a 0 per cent lock. Calculations by the Social Market Foundation estimated that this policy would save approximately £4 billion a year.

8. Reform student loan terms

Increase the repayment rate to 15 per cent and simplify interest to a uniform rate of RPI plus 3 per cent. This could save £3 billion next year, as well as encouraging students to select more financially productive courses.

9. Reform the Barnett formula

Trim this excess grant which Scotland receives relative to Wales to save £5.7 billion in 2021-22.

10. Cap annual leave entitlements

Annual leave entitlements should be brought into line with those in the private sector with a 25 day cap, plus bank holidays. This could save £3.1 billion in 2021-22.

11. Scrap foreign development aid

Scrap the arbitrary target of 0.7 per cent of national income, around £16.6 billion, retaining £1.5 billion for humanitarian efforts, to save taxpayers £15.1 billion next year.

12. End union facility time

Taxpayers should not have to fund union activity. Eliminate grants, use of offices and equipment and facility time to save £137 million in 2021-22.

13. Cancel plans to replace farm subsidies with new public good measures

Planned spending on supposed public goods to replace spending on subsidies should be cancelled, which could save £0.7 billion in 2021-22, rising to £3.8 billion by 2025-26.

14. Move government offices out of London

Government offices (except ministers' private offices) should be moved out of London to save money by using cheaper property and reducing spending on paying London weighting for staff. This could save £104 million annually.

15. Freeze public sector pay

Public sector pay should be frozen for two years. This could save £3.8 billion in 2021-22.

15 savings

1. End national pay bargaining

Moving towards greater regional differentiation of public sector pay offers two major and extremely relevant advantages. First, salaries would better reflect the local cost of living. Public sector staff in London are paid a small premium but given the much lower living costs many staff outside London are often significantly better off than those doing the same job in London.

In high-cost regions, organisations wouldn't have to hire expensive agency staff unnecessarily. In the NHS in particular they are often used because in richer areas with higher costs of living, trusts struggle to recruit the staff they need while offering national pay rates. So they hire agency staff where pay isn't restricted.

Second, introducing local or individual pay bargaining would also have the important beneficial effect of reducing the crowding out of the private sector in poorer regions. National public sector pay rates artificially inflate wage costs for other organisations competing in the same labour market.

Correcting these issues by decentralising pay decisions outside of Whitehall could form a key part of the government's 'levelling up' agenda, while making public sector pay and pensions more affordable for taxpayers.

A Policy Exchange study estimated the saving available at £6.3 billion.[2] After adjusting for growth in the public sector pay bill, we estimate that this policy could save around £8.8 billion in 2021-22 if realised fully. However, if an assumption that the policy would take five years to gradually work through labour markets is adopted, it could save £1.7 billion in 2021-22, reaching the full saving in 2025-26.

2. Defund the Arts Council

According to a report by The New Culture Forum, more public installations and sculptures were opened in the 1990s and 2000s than in the entire preceding century. But the state cannot fairly decide which arts projects are worthy of funding, and which are not.

Philip Davies, the MP for Shipley, found that the Arts Council was on track to spend £347 million on opera during the 2010–15 parliament, but only £1.8 million on brass bands.[3] Funding disclosures show 41 per cent of Arts Council grants are being awarded to organisations in London in the 2018-22 round.[4] Often grants awarded outside London seem extravagant, too, such as the £215,305 given to a Brighton-based drag act with two employees.[5]

That gives the impression that arts funding is just as liable to be captured by niche vested interests as any other form of subsidy. Popular local art projects do not get the same support as something like opera, which could fund itself through private donations and ticket sales as it has done throughout its history. At the same time, the benefits of funding arts like opera often accrue to the wealthy, who would be able to afford attendance without a subsidy from taxpayers less affluent than them.

Technology should play a major role in how artists seek to fund their activities. Crowdfunding websites are increasingly used to obtain funding to pursue an artistic project, and bureaucratic

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[2] Holmes, E & Oakley, M., *Local Pay, Local Growth: Reforming pay setting in the public sector,* Policy Exchange, 2012, p. 8.
[3] UK Parliament, *Daily Hansard – 4 Mar 2014: Column 750W*, 2014, https://publications.parliament.uk/pa/cm201314/cmhansrd/cm140304/text/140304w0002.htm#140304w0002.htm_wqn75, (accessed 28 October 2020).
[4] Arts Council England, *The data: 2018-22*, 2020, www.artscouncil.org.uk/national-portfolio-2018-22/more-data-2018-22, (accessed 29 October 2020).
[5] Guido Fawkes, *ARTS COUNCIL GAVE £215,305 IN CORONAVIRUS RECOVERY TO SOLO DRAG* ACT, 21 October 2020, https://order-order.com/2020/10/21/arts-council-gave-215305-in-coronavirus-recovery-to-solo-drag-act/, (accessed 19 November 2020).

quangos are in danger of crowding out such innovations. Performers, such as comedians, have noted the difficulty of applying for Arts Council grants compared to private funding.[6]

The Department for Digital, Culture, Media and Sport planned to spend £468 million on the Arts Council, including Barnett consequentials, last year. Adjusted for inflation, that equates to an estimated £481 million in 2021-22.

3. Raise the state pension age to 68 by 2028 instead of 2046

The government has recognised that the ageing population is leading to an affordability crisis for the state pension. The Pensions Act 2011 accelerated the increase in the state pension age. The state pension has now risen to 66 for both men and women. The Pensions Act 2014 increased the age to 67, although this will not begin rising until 2028.

Using estimates of age cohorts for 66 year olds and 67 year olds, we estimated how many fewer claims for state pensions would be payable by raising the state pension age to 66 years and 3 months on 6 April 2021, and successively by another 3 months each year until 68 would be reached in 2028 (ie, for those born after 6 April 1960).[7] Fundamentally, it is difficult to defend why taxpayers should be told to fund decades-long retirements for healthy and fit people in their 60s.

Assuming the current triple lock policy, this could save around £1.6 billion in 2021-22, £3.4 billion in 2022-23 and £5.5 billion in 2023-24, and then rising to £18.8 billion in 2028-29.

4. Scrap the Christmas bonus

The Christmas bonus is a one-off tax-free annual payment of £10 to pensioners. It is a cash payment that recipients can spend on whatever they please.

The Office for Budget Responsibility forecasts that it will cost £163 million a year in 2021-22, rising to £175 million by 2024-25.[8] Scrapping it could save that amount annually.

5. Scrap winter fuel payment

The winter fuel payment is a tax-free annual payment to pensioners. It is a cash payment that recipients can spend on whatever they please.

It is estimated to cost £2 billion a year, so scrapping it could save that amount annually.[9]

6. **Scrap older person's bus passes**

In England, local authorities are currently given grants to provide concessionary, off-peak bus travel to eligible disabled people and eligible older people (those above the women's state pension age).

Some authorities provide further concessions, such as Transport for London which, until its recent rescue package from central government, granted free peak-time travel on buses, trams, Underground, Overground and DLR for those over the age of 60. Concessionary fares are the responsibility of the devolved governments of Scotland, Northern Ireland and Wales.

The requirement for local authorities to provide concessionary bus fares for older people should be abolished and the formula grant from the Ministry of Housing, Communities and Local Government reduced accordingly.

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[6] TaxPayers' Alliance, *Leo Kearse – TPA Talks Episode 6*, 25 September 2020, www.taxpayersalliance.com/leo_kearse_tpa_talks_episode_6, (accessed 19 November 2020).
[7] Department for Work and Pensions, *State Pension age timetables,* 15 May 2014.
[8] Office for Budget Responsibility, *March 2020 Economic and fiscal outlook – supplementary fiscal tables: expenditure (table 4.7)*, 11 March 2020, https://obr.uk/download/march-2020-economic-and-fiscal-outlook-supplementary-fiscal-tables-expenditure/, (accessed 28 October 2020).
[9] Ibid.

The cost of providing statutory concessionary fares to older people and others was £1.11 billion in England in 2018–19, and 90 per cent of passes were issued to older people.[10] Adjusting this number to remove other concessions, CPI and Barnett consequentials implies a potential saving next year of £1.2 billion.

7. Reform the triple lock

Spending on the state pension and pension credit has become unaffordable. The 'triple lock' premise as it stands – that pensions will always rise by whichever is higher out of inflation, earnings growth or 2.5 per cent – is irresponsible. It is especially so to keep it now that many household incomes are falling and the public finances are in need of repair.

The government should reform the triple lock to make it fairer to taxpayers and younger generations. The 2.5 per cent lock should be replaced with a 0 per cent lock that would prevent automatic and unreasonable increases and while still guaranteeing the state pension will not fall when earnings and inflation numbers are both negative. The pension would rise with earnings except when inflation is rising faster than earnings. When prices and earnings in the broader economy are both negative, the 0 per cent lock would mean that pensioners would still receive the same cash amount in their state pensions. When either prices or wages are growing, the state pension would continue to rise by the higher of the two.

Calculations by the Social Market Foundation estimated that this policy would save approximately £4 billion a year.[11]

8. Reform student loan terms

There is a good case for taxpayers to underwrite a loans system for students in higher education to promote participation, a more educated population and a more skilled workforce.

However, this case is undermined by a particularly generous system that, in effect, means taxpayers – including those on low incomes who did not attend higher education – pay more tax so that educated graduates can enjoy an overly-generously subsidised repayment regime. This is especially true when courses do not generate higher incomes in future which reduce the tax burden.

The cost of student loans is forecast by the Office for Budget Responsibility (OBR) to be £10.6 billion[12] this year while loan repayments are expected to total £3.7 billion.[13] When student loans were introduced, graduates started repaying their loans when their incomes exceeded £10,000. That threshold is now either around £27,000 or around £19,000, depending on the enrollment year. Repayments are set at 9 per cent over the threshold. This means that for too many students, the loan operates effectively like a tax because the principle is not repaid before it is written off, usually 25 or 30 years after the graduate becomes eligible for repayments.

The repayment rate should be increased to 15 per cent and the interest rate simplified to a uniform RPI plus 3 per cent.

These adjustments would increase repayments from graduates. Graduate with a £20,000 income who only repay once their incomes exceed the threshold of almost £27,000 would still repay nothing while those whose repayments start at around £19,000 would repay £93 instead of £56. An income of £30,000

[10] Department for Transport, *Concessionary Travel Statistics England 2018/19*, 17 December 2019.
[11] Corfe, S., *Intergenerational fairness in the coronavirus economy*, Social Market Foundation, April 2020, p. 8.
[12] Office for Budget Responsibility, *March 2020 Economic and fiscal outlook – charts and tables: Chapter 3 (table 3.13)*, 11 March 2020, https://obr.uk/download/march-2020-economic-and-fiscal-outlook-charts-and-tables-chapter-3/, (accessed 28 October 2020).
[13] Office for Budget Responsibility, *March 2020 Economic and fiscal outlook – supplementary fiscal tables: receipts and other (table 3.9)*, 11 March 2020, https://obr.uk/download/march-2020-economic-and-fiscal-outlook-supplementary-fiscal-tables-receipts-and-other/, (accessed 3 November 2020).

would repay £1,593 instead of £956, or £515 instead of £309, depending on the graduate's plan. An income of £50,000 would repay £4,593 instead of £2,756 or £3,515 instead of £2,109.

In total, these measures could save £3.2 billion next year, as well as encouraging students to select more financially productive courses.

9. Reform the Barnett formula

The Barnett formula ensures that public spending per head is higher in Northern Ireland, Scotland Wales than it is in England. It is outdated and unfair, and its author Lord Barnett himself has said the policy is flawed.

The reality is that the Barnett formula cannot possibly survive. It is little more than a crude back-of-the-envelope rule for splitting annual increases in public spending, drawn up in 1978 as a short-term expedient. It was never designed to last for 40 years.

More must be done to restore fairness to the distribution of public sector spending. In 2018-19, public spending per head excluding local government in England was £7,036 while in Wales the figure was £7,928, reflecting lower incomes. But despite having higher incomes than Wales, in Scotland the number was £8,509.[14]

Trimming this excess back to match Wales would save a substantial sum. Incomes in Wales are 29 per cent lower than in England and non-local public spending is 13 per cent higher.[15] In Scotland, incomes are only 11 per cent lower than in England, so spending should only be 5 per cent higher. After adjusting for inflation and the effect of Scottish tax policy decisions, Scotland's block grant would be reduced by £5.7 billion in 2021-22.

10. Cap annual leave entitlements

A survey of almost 200,000 employees of 208 organisations and 391 employee groups found that the median holiday entitlement for public sector workers is 27 days, compared with 25 days for manufacturing companies and private sector services organisations.

Despite some restraint in public sector pay over the past decade, public sector employees still enjoy a significant pay premium over their private sector counterparts, especially when defined benefit pension schemes are included.

Given the higher pay and greater job security in the public sector, there seems little justification for more generous holiday arrangements.

Average annual leave entitlements should be brought into line with those in the private sector by capping annual leave at 25 days, plus bank holidays, excluding teachers and the armed forces where particular service-related operating practices apply.

Doing this would mean a saving of around 0.9 per cent of the public sector pay bill which the OBR estimated to rise to £228.7 billion next year, saving £2 billion. A further area of savings could be realised by abolishing privilege days for civil servants.

11. Scrap foreign development aid

Departmental budgets are facing necessary restraint in the UK following the pandemic. It is right for the government to offer humanitarian assistance to other nations when required but support for development spending remains critically low. TaxPayers' Alliance polling from 2019 showed that 64 per

[14] HM Treasury, *Public Expenditure Statistical Analyses*, 17 July 2020, p. 157.
[15] Office for National Statistics, *Regional gross value added (balanced) per head and income components: table 2*, 19 December 2019,
www.ons.gov.uk/economy/grossvalueaddedgva/datasets/nominalregionalgrossvalueaddedbalancedperheadandincomecomponents, (accessed 29 October 2020).

cent of voters support a reduction in foreign aid spending and reallocation to other priority areas, such as the police, NHS and schools; almost four in five C2DE voters were in support of this change.[16] In this context, aid must be reformed.

Reform of overseas development assistance (ODA) should ensure further overseas activities can be counted as foreign aid, such as appropriate anti-piracy and counter-narcotics operations. Additionally, restrictions that deter private sector investment as foreign aid should be lifted. Aid towards multilateral aid organisations and giant NGOs should be reduced. Overall levels of ODA spending should come down.

The arbitrary and unsustainable target of 0.7 per cent should therefore be scrapped. In 2021-22, 0.7 per cent of forecast national income will equate to around £16.6 billion.[17] Abolishing that spending, while allocating £1.5 billion for humanitarian efforts, would save taxpayers £15.1 billion next year.

12. End union facility time

Trade unions should be voluntary bodies of members and they should look to their members for financial support, not taxpayers. Unions are subsidised through direct funding and through paid staff time within public sector bodies. This trade union facility time allows union representatives to carry out duties including planning industrial action.

TaxPayers' Alliance research has revealed that the cost of this has been over £100 million per year.[18] The level of subsidy is now declining and the measures to limit the worst excesses are welcome but further action is necessary, including measures in 2017 which the government estimated would save £14 million.[19] Taxpayers should not be asked to fund any union activity and union members would enjoy more responsible unions if they had to rely on them and them alone for their finances.

Eliminating grants and facility time would save over £80 million a year in these costs. Further uncosted savings could be available from the reclamation of office space and equipment that is currently used by union officials, but we have not been able to estimate the extent of this.

13. Cancel plans to replace farm subsidies with new public good measures

British farmers received an estimated £3.5 billion a year in subsidies from the EU's common agricultural policy.[20] A transitional act of parliament allocated £2.9 billion to top up the remaining EU funding in 2020 so that farmers would receive the same amount this year as previously.[21] The new Agriculture Act requires the government to set out a seven year plan to replace direct payments and subsidies for food production with measures to promote public goods, such as 'improving the environment', 'public access', 'health and welfare of livestock', 'quality of soil' and 'productivity'.

Subsidising food production and giving farmers direct payments based on land farmed has long been a waste of taxpayers' money and plans to change this would represent a marginal improvement. But these new spending plans are unnecessary.

[16] TaxPayers' Alliance, *New polling from the TaxPayers' Alliance shows tax cuts are key to winning working class* votes, 5 November 2019, www.taxpayersalliance.com/new_polling_from_the_taxpayers_alliance_shows_tax_cuts_are_key_to_winning_working_class_votes, (accessed 19 October 2020).

[17] Office for Budget Responsibility, *March 2020 Economic and fiscal outlook – economy supplementary tables (table 1.2)*, 11 March 2020, https://obr.uk/download/march-2020-economic-and-fiscal-outlook-supplementary-economy-tables/, (accessed 2 November 2020).

[18] TaxPayers' Alliance, *Taxpayer funding of trade unions 2012-13*, 2014.

[19] UK Parliament, *Facility Time Guidance: Statement UIN,* HCWS1567, 20 May 2019, https://questions-statements.parliament.uk/written-statements/detail/2019-05-20/HCWS1567, (accessed 29 October 2020).

[20] Coe, S, & Finlay, J., *The Agriculture Bill 2019*-21, House of Commons Library, 10 October 2020, p. 6.

[21] HM Treasury, *Farmers' £3 billion support confirmed in time for 2020,* 30 December 2019, www.gov.uk/government/news/farmers-3-billion-support-confirmed-in-time-for-2020, (accessed 2 November 2020).

Instead of increasing spending on supposed public goods, the government should gradually reduce its expenditure on these payments over the seven years without embarking on any new spending programmes.

If it is assumed that overall spending on payments to farmers would increase only with inflation, reducing this budget by a fifth each year for five years would save £0.7 billion in 2021-22, rising to £3.8 billion by 2025-26.

14. Move government offices out of London

With some exceptions, government offices should be moved out of London to save money by using cheaper property and reducing spending on London weighting for staff. Ignoring government offices for devolved nations and agencies where contact with institutions in London may be particularly important, approximately 29,000 staff in London relate to national functions rather than locally to London.[22] Assuming a £3,500 per head saving in London allowance and cheaper office rents implies a potential saving of over £100 million a year from 2022-23.

15. Freeze public sector pay

Given a background of high unemployment, precarious jobs and reduced incomes in the private sector, freezing public sector pay for two years represents a generous offer to public sector employees. The Centre for Policy Studies have estimated that this could save £3.8 billion in 2021-22.[23] By 2025-26, that could rise to £8.7 billion.

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[22] Cabinet Office, *Civil service statistics: 2020 (table 12)*, 26 August 2020, www.gov.uk/government/statistics/civil-service-statistics-2020, (accessed 19 November 2020).

[23] Centre for Policy Studies, *Public Sector Pay: The Case for Restraint*, 2020.