An economic review of policy proposals

A report for UKIP

April 2015

Cebr

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Authorship and acknowledgements

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Summary

Cebr was commissioned by the United Kingdom Independence Party (UKIP) to assess the budgetary impacts of the policies specified in Table 1 overleaf.

Cebr is an idependent consultancy that works with all the major political parties. Cebr does not support or back any one particular party. This report is in line with our commitment to help parties refine and improve their policies.

We believe that the impacts specified in Table 1 are sound and reasonable, under plausible assumptions for the future path of key economic variables such as GDP, consumer spending, average earnings and employment.

While actual impacts may differ from this in practice, reflecting variations in economic performance among other things, we have no reason to believe that the impacts specified in Table 1 are significant under- or overestimates.

Oliver Hogan

Director

Table 1

PHASED BUDGET CHANGES 2015-2020

All figures in £bn

BUDGETARY SAVINGS	2015-16	2016-17	2017-18	2018-19	2019-20
Net EU contributions			7.50	8.50	9.00
Overseas Aid phased down to 0.2% of GNI	4.70	8.74	10.11	10.56	11.09
HS2 cancellation	0.80	1.70	1.70	3.30	4.00
DECC budget cuts (excluding levies)	0.50	1.00	1.00	1.00	1.00
Fake charities (non charitable expenditure funded by government)	0.25	0.50	0.50	0.50	0.50
NHS medical insurance recovery from migrants and visitors ineligible for free treatment	0.50	0.60	0.70	0.80	0.90
Barnett Formula replaced with needs based allocation of spending	1.50	3.00	4.00	4.75	5.50
HGV Road User Levy increased for non UK vehicles (Britdisc)			0.04	0.04	0.04
Total savings	8.25	15.54	25.55	29.45	32.03

Table 1 (continued)

All figures in £bn

TAX AND EXPENDITURE	2015-16	2016-17	2017-18	2018-19	2019-20
Income Tax mid-rate of 30% increased to £55,000 by 2019-20		1.18	1.98	2.93	3.88
Income Tax personal allowance increased to £13,000 by 2019-20		2.03	4.07	6.17	8.14
NHS provision	1.50	2.00	2.50	3.00	3.00
Social Care provision	0.60	1.00	1.20	1.20	1.20
Carers Allowance increased to level of Job Seekers Allowance	0.40	0.40	0.40	0.40	0.40
Bedroom Tax abolished	0.50	0.50	0.50	0.50	0.50
Inheritance Tax abolished by 2020		0.92	2.04	3.42	5.12
Restore defence budget to level prior to Strategic Defence and Security Review 2010	1.40	2.00	2.60	2.90	3.00
Ministry of Defence capital projects	0.50	0.70	1.00	1.00	1.00
Veterans Administration	0.12	0.32	0.35	0.35	0.44
Jobs for ex-servicemen and women	0.12	0.20	0.22	0.23	0.24
Higher-education tuition fees abated after 5 years for STEMM students	1.79	1.81	1.85	1.89	1.98
Hospital car parking fees abolished	0.20	0.20	0.20	0.20	0.20
National referenda	0.04	0.04	0.04	0.04	0.04
Income Tax transferable personal allowance increased to £1,500 by 2019-20		0.03	0.10	0.20	0.30
Stamp duty relief and incentive grants to build houses on brownfield sites		0.25	0.50	0.50	0.50
Business rates cut - 20% relief on premises with a rateable value up to £50,000		1.15	1.16	1.18	1.20
Provision for other policy items	0.30	0.30	0.40	0.50	0.70
Total spending	7.47	15.03	21.11	26.61	31.84
Net budgetary impact	0.78	0.51	4.44	2.84	0.19

2 Introduction

2.1 Terms of reference and organisation of this report

Cebr was commissioned by UKIP to assess the budgetary impacts of the policies specified in Table 1.

While actual impacts may differ from this in practice, reflecting variations in economic performance among other things, we have no reason to believe that the impacts specified in Table 1 are significant under- or overestimates.

The structure of the report is as follows:

- In **Section 3** we provide an assessment of the individual policy costings that have been provided to Cebr by UKIP.
- In **Section 4** we consider some of the dynamic economic effects of the policies outlined in Section 3.

About Cebr

Centre for Economics and Business Research (Cebr) is a leading specialist economics consultancy established in 1993. We are an independent organisation, providing advice to members of all of the major political parties in the UK, and our client base includes organisations in the public, private and third sectors.

Cebr has expertise in macroeconomic forecasting, local and regional forecasting and economic development and impact analysis. We produce forecasts covering over 80% of the global economy and have won several awards for the accuracy of our predictions. Our forecasts are among the circa 40 independent forecasts referred to by Her Majesty's Treasury.

In addition to forecasting, Cebr undertakes policy analysis in a range of areas, including income tax, alcohol duty, motoring taxation, energy, housing, education and the arts.

3 Assessment of manifesto policies

BUDGETARY SAVINGS

3.1 Net EU Contributions

- Savings from net EU contributions have been phased in gradually from 2017-18 onwards, with savings expected to rise from £7.50bn to £9.00bn in 2019-20. On the surface, this would seem a reasonable assessment based on the latest assessments of UK net contributions to the EU.
- The 2013 House of Commons Library report has been able to quantify the costs of EU membership, noting that the UK has been a net contributor to the EU membership for the majority of its years of membership. Notably, "net of receipts under the Common Agricultural Policy (CAP), EU regional funding, and the budget rebate, the Government contributed £10bn to the EU in 2012, around 1.5% of total expenditure and equivalent to almost 0.7% of GDP". Based on these assessments, UKIP's projected savings seem cautious and reasonable.
- To caveat our assessment, this report does not comment on the change to EU policies that could occur as a result of Britain exiting the European Union (Brexit) or any changes due to devolution from the EU. We understand that UKIP policy is in favour of calling for a referendum and withdrawing from the EU, by invoking Article 50 of the Lisbon Treaty. This allows any member state to negotiate and make arrangements for withdrawal from the European Union over a period of 2 years in accordance with its own constitutional requirements.
- Whilst our assessments of the projected savings from net EU contributions appear reasonable, the House of Commons report recognises that "withdrawal from the EU would leave a policy vacuum which the Government would have to fill in order to avoid certain regions and sectors

losing out. How it chose to do so would have important implications for the fiscal and broader economic consequences of withdrawal”. At present, UKIP’s savings assume that current subsidies are maintained at their existing levels and have been provided for within this budget, being funded purely from a UK government instead.

3.2 Overseas Aid

- Our assessment of the savings resulting from overseas aid appears broadly reasonable in light of UKIP’s policy to substantially reduce the overseas aid budget. Currently, the budget is targeted at around 0.7% of GNI, which based on the 2014 DfID Performance Report would imply expenditure levels of £11.4bn.

- UKIP state that the majority of the disbursement of aid is discretionary and that the UK budget for overseas development aid is substantial compared to its Western economy peers. UKIP policy would bring UK aid levels at 0.2% of GNI in line with the United States (at 0.19% of GNI) and comparable to that recorded by the G7 countries as a whole (0.27% of GNI).

- UKIP policy states that a substantial international aid budget (greater than Italy and Spain put together) will be retained and that gradual phasing in over the first three years to 2017-18 will allow for an orderly wind down, completion of projects in progress and the run off of any contractual obligations.

- UKIP forecast that their 2019-2020 foreign aid budget will remain similar in cash terms to that recorded by the UK in 2004, with the foreign aid budget never falling below £4bn over the course of the Fiscal Plan. UKIP policy considers this budget to be both achievable and sustainable in the current economic climate and we believe these are reasonable costings.

3.3 High Speed 2 (HS2) Rail Network

- The gradual increase in savings over the five year period to 2019-20, resulting from the cancellation of the High Speed 2 (HS2) network appear reasonable. These costs are documented in HM Treasury’s 2013 Investing in Britain report, which contains the current government’s long term spending plans. Looking ahead, any further increases in HS2 budgets could potentially translate into greater savings.

3.4 Department of Energy and Climate Change (DECC) – excluding levies

- UKIP note that a significant proportion of green spending is channelled through levies applied by energy companies and so do not feature in the DECC budgets. Levies are rising rapidly and if rolled back, could reduce energy bills for consumers and businesses directly. Continually increasing green levies will make the average annual domestic energy bill £197 higher by 2019-20. UKIP has opted for a cautious approach, choosing not to incorporate these benefits into the savings component of their fiscal plan.

- Savings in this category are a result of the scaling back of the majority of green activities undertaken by the DECC, including the Renewable Heat Incentive, which had a budget of £425 million in 2014-15, with rapidly increasing budgets forecast in future years.

- UKIP plan to abolish DECC as a separate department. The essential functions including atomic decommissioning will be retained, have their budgets maintained and will be transferred back to the control of Department for Environment, Food and Rural Affairs (Defra), making significant savings on administration, staff and establishment costs. In addition, other grant funded schemes such as the Green Deal, Smart Meters, Global Threat Reduction Programme, Innovation Programme, Carbon Budgets, Carbon Capture and Storage and Heat Programme schemes will be run down - these schemes collectively cost £204 million last year. In light of these costings, UKIP’s forecast of savings of £0.50bn in 2015-16 and £1bn in subsequent years appear reasonable and cautious.

3.5 Fake Charities

- About 27,000 British charities are dependent on the government for three quarters or more of their funding. Without government cash, many would collapse. Some of these organisations spend much of their time and money lobbying the government, rather than doing what most people would consider to be 'charitable work'. This lobbying can take the form of calling for new policies, changes to the law, or increases to their own funding. Despite calling themselves 'charities', such organisations are effectively, quangos, but are not subject to the same scrutiny or control. We will review government payment to these organisations, to assess as to whether it is appropriate to continue such funding.

- UKIP remains vigilant that attempts to tackle government funding of fake charities must not remove support from genuinely worthy or necessary causes. Furthermore, given charity funding is often received from various government departments, UKIP are keen to avoid savings being double counted, particularly given that a number of departments are disbanded.

- Evidence from the Institute of Economic Affairs highlights historical data revealing that "between 1997 and 2005, the combined income of Britain's charities nearly doubled, from £19.8bn to £37.9bn, with the biggest growth coming in grants and contracts from government departments". In addition, the Centre for Policy Studies found that state funding rose by 38% in the first years of the 21st century, while private donations rose by just 7%.

- According to the National Council for Voluntary Organisations, by 2010, statutory funding of the voluntary sector had risen by 128% in the space of a decade, with more than a fifth of the nation's (then 171,000 charities) choosing to take money from the government. Statutory support of the voluntary sector had increased in real terms, from £8bn in 2000/01 to £13.9bn in 2009/10. Furthermore, as of August 2011, around 38,000 voluntary organisations had a direct financial relationship with government through a grant or contract, with a large number directly supported through statutory rate relief and Gift Aid reclaims.

- However, particularly post-crisis, funding and spending by charities remains notoriously challenging to track, especially given that different institutions choose to record grants and funding under inconsistent categories, making comparability between charities difficult. The Centre for Policy charity transparency report states that "under the current accounting requirements, it is not possible to accurately assess the level of public funding of most major charities in England and Wales. Of the Top 50 highest income charities, 32 indicate in their annual reports that they receive public money, but it is impossible for the reader to quantify. There is no consistency in reporting the type of public support received. There is widespread failure to identify the amount of public support received".

- However, estimates propose that in total, at least £3.1 billion of large charities' funds comes from public money, representing 24% of incoming resources. Realistically, the true figure could be as high as £6.5bn. The Charity Commission's new Statement of Recommended Practice (SORP) which came into effect in January 2015 is expected to tackle levels of compliance regarding disclosure of funding. The Charity Commission's own data as of end September 2014 reveal that over 180,000 charities were in operation, recording total income of £64.8bn and total spending of £62.1bn (of which £54.0bn is classified as charitable spending).

- In light of these figures, there appears to be some scope to tackle fake charities and in some cases charities' continued level of dependency on public funding. UKIP currently forecast savings of £0.25bn in 2015-16, rising thereafter to £0.50bn in later years. Whilst the unreliability of recent data for charity funding makes it difficult to fully assess forecasts of savings, based on the latest range of estimates for large charities' funding with public money (£3.1bn-£6.5bn), UKIP's forecast savings appear broadly reasonable, representing a 5% - 10% clampdown on fake charities. However, it must be noted that these estimates (£3.1bn-£6.5bn) represent only large charities and if total charity funding was found to be significantly higher, then UKIP's estimates may appear to be more cautious.

- Regarding UKIP's policy regarding EU withdrawal, evidence highlights that "the 49 Top Charities also receive £195m from various EU bodies (approx. 1.5% of resources) and a further £140m from foreign governments and international bodies such as the UN (approx. 1%). In the event of EU withdrawal, charities with both domestic and overseas interests could see their international funding reduced or withdrawn, requiring domestic funding to make up the shortfall, to ensure continued support for necessary and worthy causes. That being said, EU net contributions should account for any potential reductions in savings in later years.

- Looking ahead, following in-depth assessment of overall donations by government to private charities, savings could be modestly increased if a more stringent approach to fake charities was implemented over the later years of the Fiscal Plan. A steady evaluation of annual grants should enable changes to funding to be announced so that charities can plan accordingly.

3.6 NHS Medical Insurance

- UKIP note increased NHS savings from medical insurance of £0.50bn in 2015-16, rising gradually to reach £0.90bn in 2019-20. UKIP take account of Department of Health estimates which find that the scale of the NHS providing health care to overseas visitors and migrants is £1.75bn per annum, rising to around £1.8bn - £2bn per annum if "health tourism" costs are included. However, it is important to recognise that these figures are estimates of the Department of Health and should be considered as such.

- The Department of Health consultation response highlights support for an immigration health surcharge as "the best way to ensure non-EEA migrants make a fair contribution to the costs of their healthcare". However, UKIP policy is to recoup health care costs via compulsory medical insurance, for those not entitled to free NHS care. The Department of Health report states that using policy tools such as an insurance model would struggle to cover similar levels of care as an immigration health surcharge or levy system and that "it would be impractical to enforce health insurance as a solution for those who come here for more than a visit". UKIP states however, that it will consult whether an insurance or levy system will be the most effective and practical to administer.

- UKIP's insurance policy proposal does however recognise that practically, some of the costs will not be recoverable via an insurance or levy for a significant proportion of ineligible patients. To mitigate these effects, UKIP will apply a more rigorous application of assessing entitlement, which will allow the NHS to limit spending to essential treatment for those without insurance cover. This is similar to the approach taken in Australia. The insurance system will not cover "health tourists" (those who travel with the specific intent to access NHS services) and will not be extended to those with pre-existing conditions, as is commonplace with most medical insurance providers.

- UKIP have set a target to recover some of the total costs incurred, in order to allow for patients without insurance and also to cover costs of administering the process, estimated at £200m per annum. Whilst not directly comparable, the Department of Health report highlights that the NHS has only been able to recover less than 20% of potentially chargeable costs. UKIP believes that implementing a significantly better designed and comprehensive scheme, improving management of the process and increasing the incentive to recover costs will yield far greater savings.

- The Department of Health report estimates that "there is a potentially chargeable amount of £388m per year" and in addition "introducing a new health surcharge/levy system will generate an estimated £200m per year". Critically, "this suggests over £500m could be raised from overseas visitors' and temporary migrants' use of the NHS each year". Taken as a proportion of the total £2bn health costs would imply lower recovery rates and potentially lower savings.

- UKIP's forecast of gradual savings appears sensible in reflecting the time it will take to implement the scheme, as well as the progressive enforcement of insurance cover for new entrants (including difficulties in applying cover to those already resident in the UK). Our assessment is that the gradual savings shown in the Fiscal Plan imply a recovery rate of 25% in 2015-16, rising by 5% each year to 2019-20. We believe this gradual phasing represents a realistic and cautious approach to recovery rates and that the costings appear reasonable.

- Currently, a number of developed countries require proof of medical insurance prior to processing a visa application for visitors. Canada explicitly states that it does not pay for hospital or medical services for visitors and requires visitors staying longer than 6 months to undergo a medical examination - particularly if they have resided or spent 6 months or more in a "designated country or territory" in the preceding year before the visit. Japan requires visitors to have adequate travel health insurance and accessible funds to cover the cost of any medical treatment abroad and repatriation, as payment of the whole cost of any treatment received is necessary.

- Similarly in New Zealand, anyone requiring acute services will be able to receive the services they require, and if not eligible, visitors will be invoiced for services received. Ineligible people needing elective services may receive treatment through public systems where there is capacity beyond meeting the needs of the eligible population, and some visitors may be asked for payment in advance. Australia requires evidence of insurance that is at least as comprehensive as the minimum level of coverage required under their visa program. It also has a system whereby citizens of some countries (including the UK) are entitled to essential treatment but are not covered for non-urgent treatment or pre-existing medical conditions. UKIP believes that these various international examples demonstrate that an insurance system can work in practice.

- As discussed earlier, the Department of Health's figures are estimates and assume that the average annual cost per head of those ineligible (an overseas visitor or migrant) is £690 per head, just 40% of the cost associated with an English resident (£1,730 per head). It must be recognised that even modest adjustments to these estimates and varying assessments for alternative demographic profiles could reveal differing overall results (both on the upside or downside), impacting upon UKIP's savings forecasts.

- UKIP's savings are estimated based on figures for England only, suggesting that if the devolved regions were also to implement policies, additional savings could potentially be gained.

3.7 Barnett Formula

- UKIP policy calls for a phasing out of the Barnett Formula, forecasting savings of £1.50bn in 2015-16 and rising gradually to £5.50bn by 2019-20. As spending is spread across a number of different departments which receive central grants, this makes savings rather more difficult to forecast.

- UKIP highlights evidence of the scale of public spending in Scotland in the form of no personal care charges for the elderly, no student tuition fees, no prescription charges, free eye tests, universal free all day bus travel for the over 60s and more. Whilst spending in this area remains a complex area, in the last few years the Barnett Formula has revealed anomalies in areas such as Business Rates (which are devolved to Scotland), albeit Scotland receives an uplifted grant to reflect increases to Business Rates in England.

- UKIP agrees with the House of Lords Select Committee and the House of Commons Justice Committee that the Barnett Formula should be scrapped and replaced by a system based on need. The House of Lords Select Committee report concluded that the Barnett Formula resulted in "per capita allocations that are arbitrary and unfair". In particular, they stated that "while we are not in a position to reach a conclusion about precise relative needs in the four countries and regions, on the basis of our initial analysis, we believe that Scotland now has markedly lower overall need than Wales and Northern Ireland in comparison to England. The current allocation of spending does not properly reflect this basic pattern across the devolved administrations. We recommend that an alternative system [...] be created to establish a new baseline grant for the devolved administrations and to review needs on a regular basis so that allocations of funds to the devolved administrations reflect the changing patterns of relative need".

- The House of Commons Justice Committee in 2009 also agreed that "the Barnett Formula is overdue for reform and lacks any basis in equity or logic". The government was urged to "proceed to devise a new formula which is needs based, takes into account regional disparities in England as well as in Scotland and Wales, is transparent and is sufficiently robust to enable long-term planning".

- Evidence from the Tax Payers Alliance report suggests a £200bn cost to the UK over a 20 year period, implying a £10bn cost per annum. UKIP's policy of a gradual reduction in the Barnett Formula would result in a saving of £5.50bn per annum in the last year of its fiscal plan. UKIP's current savings projections show a steady phasing in of the reduction in the Barnett Formula, revealing 15% savings in year 1, rising to 30% in year 2, 40% in year 3, 47.5% in year 4, before reaching a 55% reduction in the final year of the fiscal plan. Our assessment is that this phasing appears sensible, particularly as full implementation will take time (possibly up to 7 years) and this is reflective in the cautious approach to the resultant savings.

3.8 HGV Road User Levy

- The HGV Road User Levy (a port of entry charge) for foreign registered vehicles is forecast to lead to revenues of £0.04bn each year from 2017-18 to 2019-20. UKIP note that they will use the existing HGV Road User Levy to collect the charges. The existing levy affects all HGVs of 12 tonnes or more that drive on UK roads, regardless of their country of registration. Foreign operators currently pay the tax before using UK roads, with charges varying from £1.70 and £10 a day, or £85 to £1,000 per year. The levy is structured in a series of bands, reflecting vehicle type, weight and the number of axles. UKIP policy is for the current levy tariff of £1,000 to be doubled to a maximum of £2,000 per annum with the levy only applying to foreign registered HGVs. UKIP state that this policy would help UK hauliers compete with European hauliers entering the UK with cheaper fuel loads bought on the continent.

- At present, the levy currently applies to both UK and vehicles registered in other EU countries. This is necessary in order to comply with the EU directive 1992/62/EU, 2006/3/EU and 2011/76/EU. By law, the scheme is unable to differentiate between UK registered vehicles and those from elsewhere in the EU as anti-competition laws cover a single market. Therefore practically, any changes cannot be implemented before 2017-18 and UKIP's phasing of savings reflects this. Importantly, UKIP policy notes that after leaving the EU, this levy would cease to apply to UK vehicles, but the Vehicle Excise Duty (VED) on UK vehicles would be adjusted by the equivalent amount to ensure this policy was revenue neutral for both UK hauliers and government.

- Initially, an estimated £20m was expected to be raised in the first year of introduction of the HGV levy, although the Department of Transport data highlights that the current level of tariff had in fact raised revenue of over £17m in just 4 months from April 2014 to July 2014. If the levy was to continue raising revenues at this rate, this could potentially equate to around £50m per annum, as identified in UKIP's savings. However, a doubling of the levy may potentially result in reduced road usage/ alternative routes being used and potentially a modestly slower pace of revenues being raised. To allow for any potential fall off in usage, UKIP have scaled back savings from 2017-18 to a more cautious and reasonable £0.04bn each year.

3.9 Income Tax mid-rate 30% up to £55,000

- The policy provisions set out by UKIP appear reasonable. The exact cost of the policy is sensitive to earnings growth and fiscal drag over the coming years.

3.10 Income Tax personal allowance up to £13,000

- The policy provisions set out by UKIP appear reasonable. The exact cost of the policy is fairly sensitive to earnings growth over the coming years as well as the extent to which jobs created are part-time rather than full-time. Recent trends, such as the tendency towards low income self-employment and low-productivity job creation, could lead to higher policy costs than currently specified, given future labour market uncertainty.

3.11 NHS provision

- Earlier this year, UKIP pledged additional funding for NHS provision, being phased in over the five years and rising from £1.5bn in 2015-16 to reach £3bn by 2019-20. This funding will be invested in frontline services to provide for 20,000 new nurses, 3,000 midwives and 8,000 GPs, rather than on management and administration. UKIP have committed to having the NHS free at the point of delivery with an aim to invest in training and frontline staff whilst also spending £130m annually on fighting dementia and £170m annually on mental health by 2019-20.

- UKIP have been cautious in phasing in expenditure over the earlier years of the Fiscal Plan, and this is driven in large measure by the practicality of training greater volumes of additional staff. The training lead time for both GPs and nurses is 3 years once training places are allocated, and therefore there are practical limitations as to how many newly qualified staff can come on stream in any given year. UKIP acknowledge that there are ways to accelerate this, for instance hiring staff from abroad or encouraging qualified staff to return to the NHS after a period of absence. This may be necessary, particularly in the case of the shortage of nurses.

3.12 Social Care Provision

- UKIP policy is to restore the social care budget that has been withdrawn over the period of this parliament to 2010-11 levels. A finite allocation has been phased over the 5 years of the Fiscal Plan, rising from £0.60bn in 2015-16 to £1bn in 2016-17 and then £1.2bn in subsequent years. These costings and phasing of expenditure appear reasonable, in light of research by Age UK which presents a social care “score card” highlighting that despite rising demand from growing numbers of people in need of support, the amount spent on social care services for older people has fallen significantly and in the region of £0.7 - £1.1 billion since 2010-11.

3.13 Carer’s Allowance

- UKIP has chosen to uplift the carer’s allowance to the same rate as that for Job Seeker’s Allowance, at a cost of £0.40bn across all five years of the Fiscal Plan. These costings appear reasonable and cautious based on data provided by the Department of Work and Pensions.

3.14 Bedroom tax abolished

- The housing benefit reform was expected to limit the scope of the policy which penalises council tenants who are deemed to have more rooms than they need. Under the withdrawal of the spare room subsidy, council tenants could lose 14% of housing benefit if they are deemed to have one unused bedroom and 25% if they have 2 or more. Whilst the measure was intended to give tenants whose children have left home an incentive to move into a smaller home, some groups such as tenants requiring additional rooms for medical purposes or disabled couples requiring an additional room or rooms with substantial adaptations may have been harder-hit in some cases.

- Over the course of the five year Fiscal Plan, UKIP forecasts a steady £0.50bn cost for the bedroom tax to be abolished. This costing tallies with the Department for Work and Pensions 2013 data which considers the removal of the spare room subsidy and estimates that the measure would save up to £0.49bn a year (later revised down to £0.47bn in 2013). In April 2014 the OBR estimated savings of £0.49bn in 2013, then rising to above £0.50bn in subsequent years. It would appear that UKIP's policy costings appear reasonable and cautious in this light.

3.15 Inheritance tax abolished by 2020

- The costs specified by UKIP, for a phased abolition of inheritance tax, appear reasonable. The Office for Budget Responsibility (OBR) estimates that inheritance tax will raise the following amounts of revenue over the coming years (£ billions):

2015-16	2016-17	2017-18	2018-19	2019-20
4.2	4.6	5.1	5.7	6.4

- UKIP will reduce the rate at which inheritance is taxed from evenly over 5 years from the current rate of 40% to zero by 2020. The effective tax rates are set out in the table below:

2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
40%	32%	24%	16%	8%	0%

3.16 Restore Defence budget to pre 2010 Strategic Defence and Security Review levels

- UKIP's policy/commitment for defence is to re-establish the real level of defence spending prior to the Strategic Defence and Security Review (SDSR) in 2010. UKIP have committed additional funding for defence (above that currently in the DEL budget) which rises steadily from £1.40bn in 2015-16 to £3.00bn in 2019-20.

- The coalition government has not confirmed details of departmental spending cuts beyond 2015-16 in the 2015 Budget or any reductions in the defence budget, particularly in light of the latest SDSR which is due in 2015. UKIP policy therefore assumes that the current government maintains its defence spending at its current level of 1.9% of GDP and UKIP considers this as the baseline to which they add additional funding for defence spending. UKIP's additional spend enables them to exceed the NATO defence spending target of 2% of GDP from 2016-17 and in each subsequent year of the Fiscal Plan.

3.17 Ministry of Defence capital projects

- UKIP will increase the defence budget further by making up to £1bn available annually for the capital projects. UKIP policy recognises that the defence sector is complex, specialised and fast moving in terms of technology, logistics and perceived threats. The funding allocation of these capital projects will be determined by the Ministry of Defence in concert with the Operational Requirement staff of the three Armed Services. The funding will be phased in over 2 years to recognise the time needed to put such projects into operation.

3.18 Veterans Administration

- UKIP policy has budgeted for a gradual increase in funding for The Veteran's Administration, rising from £0.12bn in 2015-16 to £0.44bn by 2019-20, which seems reasonable. This funding will be on top of the existing budget of organisations which are already independently funded, and will be used for additional activities to support veterans.

- UKIP will reinstate the War Widows Pension for those widows and widowers whose partners passed away between April 1973 and April 2005, who had their pensions withdrawn because they remarried.

- UKIP will also build a new 500 bed dedicated Military Hospital, located in a central location offering good transport links. This budget is based on the capital and running costs of the new Tunbridge Wells Hospital, using data from UK public finance initiatives and the annual accounts of that NHS Trust. It will also provide accommodation for 150 relatives on site, budgeted at a capital cost of £75,000 per room.

- UKIP will also build 500 affordable homes per annum to rent to ex-servicemen with an average rent of £500 per calendar month. UKIP have budgeted an average of £200,000 per unit for these homes. In addition, two half way house hostels of 200 rooms each will be built annually and located in regional cities. The capital cost is estimated at £35,000 per room, with running costs being funded partially by grants. The hostels will be similar to the Queen Victoria Seamen's Rest accommodation which is already in operation.

3.19 Jobs for ex-servicemen and women

- UKIP state that as part of honouring the Military Covenant, they will ensure that those who have served in the Armed Forces for a minimum of 12 years, have an opportunity to take a job in the Police Service, Prison Service or Border Force. Under UKIP's policy, ex-servicemen and women will be able to pursue a stable second career in a government organisation, whilst the three organisations benefit from the various skills gained from a military career.

- Home Office statistics reveal that across the Armed Forces with approximately 150,000 servicemen, an average of 11,250 leave the services each year. Of these approximately 80% will leave at the 3, 6 or 9 year point. The requirement is to offer jobs to approximately 2,250 servicemen and women who leave each year after 12 years' service. The Border Force has over 8,000 frontline staff. The Police Force has about 170,000 police officers and the Prison Service has 12,000 staff. The typical staff turnover in these organisations is estimated to be around 5% per annum creating at least 10,500 vacancies.

- Not everyone leaving service after 12 years will wish to take up a job in the Police, Prison or Border Force Services. Also there may be an initial surge from current servicemen and women who would be eligible. Whilst the pledge to offer these jobs could be met by natural staff turnover, UKIP's policy is to fund an additional 6,000 full time positions across the 3 organisations. UKIP has costed for a gradual and phased increase in expenditure from £0.12bn in 2015-16 to £0.24bn by 2019-20 to provide jobs for ex-servicemen and women. Based on these assumptions, UKIP estimates appear reasonable and cautious.

3.20 Higher-education tuition fees

- There is considerable uncertainty over the future stream of government income from tuition fees. One thing that is clear is that there are significant costs associated with the current system of fees; there are high estimated rates of non-repayment which have been creeping up over time, increasing the extent to which the "final bill" is borne by the taxpayer rather than former students.

- The costs estimated by UKIP for abolishing tuition fees for Science, Technology, Engineering and Mathematics (STEMM) subjects appear reasonable based on standard assumptions about non-repayment rates. The costs also assume that the share of students eligible for no tuition fees rises from 40% to 45% over the forecast horizon, reflecting shifting demand among prospective students.

- Considerable uncertainty around the future path of graduate earnings means that there is a wide margin of error to these estimates.

- Under UKIP policy, the abolition of tuition fee loans for EU students offsets some of the costs to the government.

- Cebr's understanding is that UKIP's policy is not to increase the overall number of university students from the current level, until sufficient graduate level jobs exist in the economy, providing an additional element of "cost control" for the policy. Given the high rates of graduate underemployment at present – with many graduates working in non-graduate jobs – there is a sound basis for not pursuing a policy of sending 50% of young people to university.

3.21 Hospital car parking fees abolished

- UKIP policy currently states that the abolishing of hospital parking fees would cost £0.20bn. Currently, most Scottish and Welsh hospitals now offer free parking although according to MacMillan Cancer Support's report "Out of Order: The Hidden Cost of Hospital Car Parking", the average daily cost of parking in English hospitals is £7.66, ranging from £2 to £24 a day or up to £3 per hour. However, daily parking charges can be over three times this amount and where weekly price caps exist, these average £14 a week, albeit some hospitals charge as much as £72 for a weekly parking ticket. Around 10% of hospitals fail to implement government guidance, offering no discount schemes, and in some cases continue to charge cancer patients the full cost of parking.

- Car parking charges also vary across UK regions and a Freedom of Information request by Conservative MP Robert Halfon on data from 400 hospitals revealed that average patient and visitor parking charges in London were £20 per day with some hospital charges rising closer to £60. The S Sentif Intelligence company also analysed data provided by care Trusts to the NHS Information Centre and found that in 2012, parking free would cost around £100m. Evidence from the Scottish government suggests that patients and NHS staff have saved a smaller £13m since hospital car parking charges were abolished. These savings figures are based on the amount of cash collected in the 12 months prior to fees being abolished, when they were capped at £3 a day. Overall, hospital parking charges remain unclear albeit UKIP's expenditure costings appear reasonable and cautious compared with available data.

3.22 National referenda

- According to the Electoral Commission, the full cost of the May 2011 referendum on the UK Parliamentary voting system was just over £75m. The total amount claimed by Counting Officers (who are responsible for conducting the referendum poll, including counting the votes in their area) for fees and charges was around £58m, far less than the government's initial claim expectation of £80m. The original estimated total cost for the 2011 referendum was more than £100m initially with the breakdown revealing that polling station costs accounted for £27.3m (against a £31.6m estimate), postal voting cost £10.6m (against £16.7m), polling cards cost £6.3m (against £17.2m) and count costs were £6.8m (against an estimated £5.8m).

- UKIP policy is that every two years, a national referendum is allowed on the issue of greatest importance to the British public, based on an approved petition. Under the assumption that a referendum would cost less than £80m in one year, UKIP's expenditure has been phased equally over each two year period. UKIP costings for a national referenda have been forecasted to remain steady at £0.04bn in each year of the Fiscal Plan, which we assess as reasonable and cautious. UKIP state that the outcome of these referendums will be included in the Queen's speech, therefore allowing the public to directly influence legislation. Furthermore, UKIP pledge that matters gathering over 100,000 signatures will be placed on the Commons' agenda, to ensure they are genuinely debated and voted upon.

3.23 Income Tax transferable personal allowance

- The policy costings set out by UKIP seems reasonable, given the Office for Budget Responsibility's estimates of the impact of transferable allowances, set out in the table below:

Exchequer impact of transferable allowance (£m)

	2014-15	2015-16	2016-17	2017-18	2018-19
Transferable amount of £1,000	nil	-490	-590	-655	-780
Increase in the transferable amount to £1,050	nil	-25	-30	-35	-40

3.24 Stamp duty and grant on brownfield sites

- Often, there are associated high costs with remediating and sometimes decontaminating brownfield sites. In the absence of central or local government grants which can help to mitigate these costs, and unless sites have significant potential for large developments, developers are likely to choose an easier option of building on greenfield sites if planning permission is granted, with local authorities required to pay bills for the necessary infrastructure.

- In addition, tax relief offered on the profits of a brownfield site development are also difficult to obtain, particularly for smaller firms of builders. And uncertainty over sign off of remediation work with Environment Agencies can lead to increased uncertainty, causing future purchasers of newly developed land to require indemnities and insurance policies, which can be costly. Further, regulatory complexities in reclaiming brownfield land can act as barriers to new developments on such sites.

- UKIP would like to encourage the development of brownfield land for residential housing and will establish a Brownfield Land Register to support this policy. UKIP policy is to promote the building of 50,000 new homes on brownfield sites in 2016-17 rising to 100,000 in each of the subsequent 3 years of the Fiscal Plan. Changes will also be made to the planning regime to promote and make re-use of the brownfield sites easier. In addition, UKIP will provide financial incentives for developers, with grants for decontamination and indemnity insurance for land that requires it.

- Financial incentives for developers include:

  – No stamp duty to be payable until the £250,000 threshold is reached on the first sale of a property built on all sites selected from the Brownfield Land Register;

  – Where land needs to be decontaminated, a grant of up to £10,000 will be available to the developer to carry out that work. UKIP assume that an average grant will be around £7,000 and that 30% of the developments will qualify for this grant;

  – A grant to cover the cost of Indemnity Insurance will also be available to the developer of decontaminated land.

- The policy costings set out by UKIP for stamp duty and grants for brownfield sites seem reasonable on this basis.

3.25 Business rates

- UKIP's costings for business rate relief in the Fiscal Plan appear reasonable in light of the property figures provided in HM Treasury's Business Rate Review and the latest multipliers noted in the House of Commons Library note in March 2015.

3.26 Provision for other policy items

- This provision has been made by UKIP to cover several smaller expenditure items on which we were not asked to comment.

4 Dynamic effects of selected policies

Two key policy areas that are likely to have important incentive effects are income tax changes and tuition fee reforms.

4.1 Tuition fee reforms

- The abolition of tuition fees for STEMM graduates would encourage a shift away from arts and towards STEMM subjects. This could potentially be significant, given the stark difference in tuition fees that would arise following the policy.

- Existing Cebr research[1] has shown that, since the financial crisis, graduates of STEMM subjects have enjoyed lower levels of unemployment and underemployment than non-STEMM graduates. This situation is forecast to continue.

- Incentivising students to study STEMM subjects has a range of positive dynamic economic benefits:

  – Lower unemployment and underemployment

  – Higher earnings throughout the economy

  – Higher income tax revenues for the exchequer

  – Second round effects (such as through jobs created by the higher spending power of STEMM graduates)

[1]*Cebr (2012), Employment and income in science based occupations and industries – what's happened and where things are going, a report for Staffordshire University*

4.2 Income tax reforms

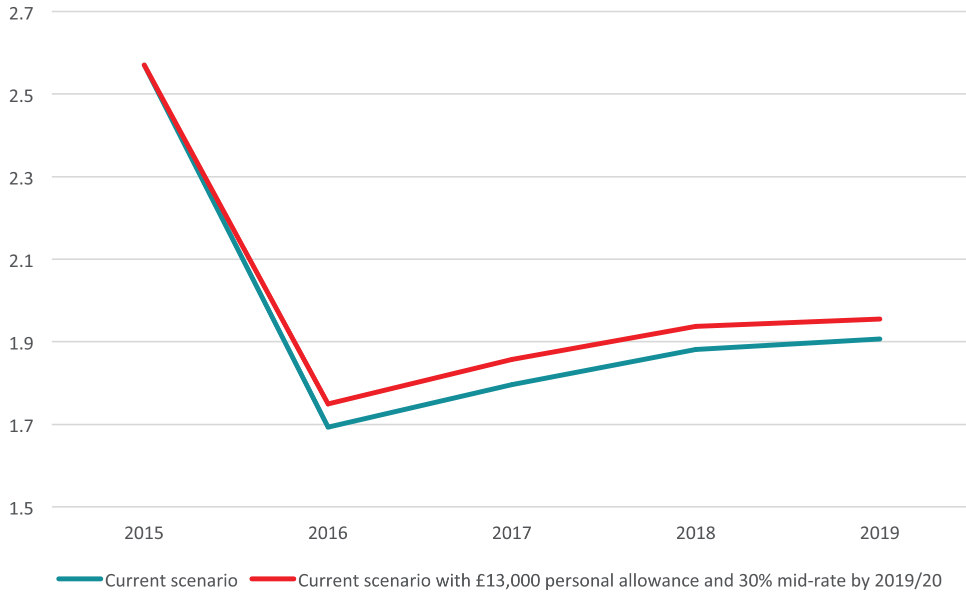
- The increase in personal allowances to £13,000 and the introduction of a 30% mid-rate of income tax would boost disposable incomes in the UK, supporting consumer spending and in turn economic growth.

- The first round boost to annual GDP growth (from higher consumer spending) is estimated to be on average 0.1 percentage points over the years 2016 to 2019. This accounts for the fact that there would be higher imports (a drag on economic growth) under this scenario.

- GDP is forecast to stand 0.2% higher in 2020 than would be the case under current policies, as a result of the income tax reforms.

- Second round effects, such as additional job creation, mean that the boost to growth is likely to be higher than this.

ANNUAL GROWTH IN REAL GDP



Source: Cebr analysis, Cebr forecasts

Notes

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