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TUC Budget Submission 2014

TUC

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Section one

Introduction

A welcome and long-awaited recovery is finally underway. 2013 saw the strongest growth since 2007, unemployment has fallen to close to seven per cent and employment levels have seen sharp rises. But six years on from the start of the downturn the economy is still not even back to its pre-recession peak, and growth has been slower than after every other modern recession on record. While the recent downturn was certainly global, many of our international competitors have already significantly exceeded the UK's dismal recent economic performance. Our prospects are certainly better than they have been for some time, but the government's economic mismanagement has forced the UK to endure years of unnecessary stagnation and wasted potential.

It is also a real concern that despite some improvements in the macroeconomic outlook, most people still feel like times are tough. Only one person in fifty report to have felt any benefit from recent economic gains. It turns out that a year of rising output has not been enough to deliver a recovery that is felt in the pockets of the UK's hardworking families.

The most significant challenge remains the ongoing fall in real wages. With four years of real pay falls, even if earnings finally start to rise in 2014 (although not for many in the public sector) it will be 2020 before most households regain even the spending power of 2008. Real Household Disposable Income per head is still below its 2009 peak and is actually lower than it was in mid-2012, when the current pickup in GDP growth began.

Falling real incomes have been driven by many divergent trends: poor jobs growth in better paid sectors, rocketing rates of under-employment, reductions in better paid public sector positions and falling rates of nominal pay growth. While employment levels have held up better than many predicted, the quality of the jobs we are creating has been in freefall.

These trends are a result both of the economic stagnation of 2010-12 and the unbalanced nature of subsequent economic recovery, which has been driven by consumer spending (underpinned by falling savings rather than rising real incomes) rather than trade and investment. Rebalancing at a sector level has also failed: service sector output has returned to its pre-recession peak, but manufacturing and construction remain subdued. Low productivity sectors now comprise a far higher share of the UK's economy than was the case before the crash. While a strengthening economy should finally lead to output rising faster than hours, there is also mounting evidence that years of recession and stagnation have caused permanent damage, and that our productive potential may have been significantly damaged.

So while the recent pickup in growth is both welcome and looks set to continue, it has come several years too late, is unbalanced and is poor by comparison to either our international peers or the UK's own historic experience of recovery from recession. The UK is in desperate need of a stronger and high productivity recovery where growth delivers real income gains for hard pressed households. The TUC believes this requires a shift to a far better balanced economic model with more long-term investment, reduced reliance on property price rises and stronger performance by our higher productivity sectors. Without such a shift, we are concerned that a substantial living standards recovery may never emerge.

A stronger and sustained recovery

In this submission, the TUC therefore recommends a suite of policies that could start to move the UK towards a sustainable recovery, where working people receive a fair share in the benefits of growth.

Firstly, we focus on the need to achieve a step-change in investment, calling for investment in infrastructure earmarked for after the next election to be brought forward. Despite much government rhetoric on the importance of capital spend, the reality is that budgets have been sharply cut since 2010. A better balanced economy requires action to reinstate this spend now, not years in the future. Wider action is also needed to increase investment guarantees, and prioritise capital allowances over further corporation tax cuts.

Investment in new homes (including council housing) should be a particular priority, tacking our housing crisis while also providing an important economic boost.

But of course government spending will only ever form a small part of UK investment, which will always need to come in the large part from the private sector. On this measure the UK was well behind our competitors before the crash, and looks set to fall even further behind. While stronger growth should strengthen business confidence, evidence from the past tells us that growth alone won't be enough to deliver the significant shifts the UK needs. That's why a diversified banking system, regionally and sectorally focused, is needed to help to genuinely rebalance the economy. There is also an important role for corporate governance reform to play, creating the frameworks in which businesses are incentivised to invest for the long-term rather than simply rewarding short-term shareholders with short-term gains.

We also look at what more government need to do to support our industries to become world-beating. Active industrial policy needs more than warm words to succeed, and we call on the Government to commit to meet the Europe 2020 target of three per cent of GDP being spent on research and development by the end of this decade. A renewed focus on rapidly developing Asia, which is rising up the income ladder and keen to buy Western goods, provides

another opportunity. There is a role for government in identifying growth areas into the Chinese market, identifying sections of that market that Chinese firms themselves cannot meet.

Government must not forget that UK's future economic prosperity, particularly our capacity to export, is linked to our membership of the EU. But continued uncertainty about our place in Europe threatens to damage future investment into Britain and limit our wider influence in the European Union, whose role as a balance to the economic power of the US and China will only become more important in the years ahead.

The Transatlantic Trade and Investment Partnership (TTIP) being negotiated between the EU and the USA could benefit the UK economy, and the TUC would support a deal that delivered more and better jobs, higher pay, improved standards of living and enhanced rights at work. But we are concerned about the secrecy in which the deal is being negotiated. An agreement which brings lower consumer, environmental and workplace standards, more power for foreign investors to restrict what governments can do (such as returning elements of the NHS to the public sector), and greater liberalisation and deregulation will not bring the economic and social gains the UK needs .

The TUC is calling for greater openness and accountability in the negotiations, and a stronger role for unions and employers to work together at a sectoral level (including better analysis of the opportunities and threats - and more work to mitigate negative impacts). We are opposed to the use of Investor-State Dispute Settlement (ISDS) mechanisms and other restrictions on the right of democratically elected governments to decide the extent of the public sector and to any moves to reduce regulatory protections, especially in the finance sector.

Government has an important role to play in boosting the productive potential of the workforce. We know that a large proportion of the UK adult population needs support to develop literacy, numeracy and problem-solving skills, and that a third of all employers offer no skills training to their staff. In this context, government plans to cut the adult skills budget by one firth in the next two years make no economic sense.

Those programmes that remain also need to be designed effectively. The TUC has welcomed the potential that high quality Traineeships could bring, but is concerned that young people currently have little incentive to participate, given the current programme design means they must pay additional costs for lunches, transport and other necessary expenses.

A high value, high productivity economy will be dependent upon the public and private sectors pulling together, and the TUC needs no convincing of the need for public service innovation and improvement to meet the challenges of the future. But neither are we ambivalent about the need for maximum value

from taxpayer investment. This is central to our case against outsourcing which, time and again, fails to deliver effective choice or value for money. Moreover, polling from the TUC and others suggests that the public expect lost services to be restored as the economy picks up and that there is little popular support for a permanently smaller state.

We also need to equip our country with the capacity to address the pressing economic challenges of the future, and the shift to a low-carbon economic model to reduce the risks of climate change needs to be a top priority. The recent floods provide yet more evidence of the need for measures to support climate adaptation. In the immediate term, a substantial increase is needed in spending on flood defences, along with a cancellation of plans to cut 1,700 Environment Agency staff.

A fairer recovery

The TUC seeks an economy that is not only efficient and sustainable, but also an economy that is fair, where the rewards of growth are shared with the working people who are responsible for their creation and where those in need receive the protection and support that any civilised society should be proud to provide.

A priority concern needs to be securing further improvements in employment, and ensuring that everyone benefits from ongoing labour market improvements, particularly young people and those facing long-term unemployment. It is not too late for government to change tack and increase investment in active labour market programmes and introduce a Job Guarantee.

But at least employment levels are heading in the right direction; in contrast real earnings continue to fall and household incomes have experienced a dramatic and ongoing living standards squeeze. Analysis shows that further increases in the personal allowance are a poorly targeted way to help those struggling to make ends meet. Instead the government needs to take action across multiple fronts, introducing new measures to strengthen enforcement of the minimum wage, increase the reach of the living wage and ensure that new mechanisms are introduced in low-paid industries to both secure important productivity gains and share those improvements fairly with their workforces.

Fairness also extends to in-work benefits: substantial reductions in the real values of Housing Benefit, working and child tax credit and child benefit have hit low-income working families hard. Rather than exacerbating the living standards challenges that those on low incomes face, the government should be providing extra support and seeking to reinstate vital losses.

High quality public services are vital to securing our economic future and strengthening our social fabric. But prolonged austerity is limiting their quality and capacity. Local authorities have been particularly hit by the austerity

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programme, leading to cuts in adult social care, children's services and culture and leisure services. And as always, spending cuts disproportionately impact on lower income groups. If the government wishes to achieve high quality public services that can meet our major social and economic challenges, it must slow the pace of deficit reduction.

A fairer approach to rebalancing the public finances also needs to involve a stronger role for fair taxation in getting our public finances back into shape. In particular the TUC is calling for the introduction of a General Anti-Tax Avoidance Principle to tackle tax avoidance, not just tax abuse; alignment of the capital gains tax rate that a person pays with their top rate of income tax; the introduction of a financial transactions tax; and a new wealth tax.

Economic overview

The pace of recovery

The economy grew by 1.9% in 2013, the strongest result since 2007 but still well below the pre-recession norm of 3.0%+. Growth picked up in the second half of last year and whilst this is a very welcome development, a recovery three years later than expected is not a great achievement. Despite recent improvements, the economy remains 1.3% below its previous peak – the longest period of depressed output in modern British economic history. Britain experienced a deeper recession in 2008/09 than many other large economies and yet its recovery has been slower. Since the trough of the recession the economy has expanded by 6.3%, well below the circa 10% growth experienced by the US, Germany and Japan.

In terms of GDP per capita (or national income per head), the UK is still some 6.0% below peak. This measure, which accounts for population, is often seen as more meaningful than headline GDP numbers. On most forecasts, GDP per capita is not expected to return to its 2007 peak until 2018. In other words, the UK looks set to experience a 'lost decade', despite the recent pickup in growth.

An unbalanced economy

In 2010, the Government set out to rebalance the British economy. But by any conventional yardstick this effort has failed. Whilst service sector output is now above its pre-recession peak, output in manufacturing and construction is still around 10% lower in 2008. In other words, the economy is more reliant than ever on the service sector has a driver of growth.

A similar picture can be seen in GDP as measured by the expenditure components. The government sought growth that was driven by rising business investment and a positive contribution from net trade (the change in exports minus the change in imports). In the initial Office for Budget Responsibility (OBR) forecasts of June 2010, around 60% of all growth over the following five years was supposed to come from these sources. By the Budget of 2013 this had fallen to just 30% and in the most recent OBR forecast (at the Autumn Statement in December) this was reduced to just 20%. Business investment remains depressed and is still 10% below 2008 levels. The trade balance has widened over 2013 and the current account is now at its widest (as a share of GDP) since the late 1980s.

Instead, the recovery since mid 2012 has been driven by consumer spending, which has been underpinned by a falling household savings ratio rather than rising household incomes. The household savings ratio (the percentage of their income that households save) fell from around 11% in 1992 to just 2.0% in 2008. It then rose sharply during the downturn to 7.0%. Since late 2012 it has once again been falling and proving a prop to household spending as households either borrow to spend or draw down on previous savings to support rising consumption. The ratio has fallen to 5.4% over the past year.

The housing market appears to have turned a corner with cheaper mortgages and the Government's Help to Buy Scheme boosting demand. House prices in the UK as a whole rose by 5.5% in 2013, well ahead of inflation and wages. Fundamentally the problem remains low supply meeting rising demand. It is likely that rising property prices have been associated with some of the rise in consumer confidence and the fall in the savings ratio. Whilst this has provided an important support to growth in the short run, if it continues it risks repeating old mistakes of the past.

In effect, rebalancing has been at best postponed in favour of consumer led growth associated with a buoyant housing market and a falling savings ratio. Most economists are now agreed that if the recovery is to continue then real wages and business investment must start to rise. A recovery can be powered by a falling savings ratio and rising consumer spending for a period, but not forever.

A changing labour market

Employment

The labour market has been one of the few bright spots in the UK economy over the past five years, but even here it is important not to overstate the positives.

Headline unemployment has fallen considerably over the past year and employment growth has been robust. However, whilst better than expected, unemployment of around 7% is still well above the pre-crisis of 5.5%. In particular, youth unemployment remains a near one million and the long-term unemployment is back to mid-1990s levels.

The growth in the number of people in work has been especially strong in recent months, but the employment level is still over 1% below its pre-crisis peak. In other words, whilst job creation has been impressive, it has not kept pace with the growth of the working age population.

The headline employment figure also misses a great deal of important variation. There has been a large rise in self-employment, despite self-employed earnings falling considerably. Much of this new self-employment may reflect a

form of disguised under- and un-employment rather than new entrepreneurial activity.

Rising underemployment has been an important feature of this recession and recovery. The percentage of the workforce directly underemployed (either working part-time when they want a full time job or on a temporary contract when they want a permanent one) has risen from around 3.5% before 2008 to closer to 7.0% - well above the levels reached in the early 1990s recession. Despite the growth in employment over the past year this has remained stubbornly high.

In addition, the regional picture is much more mixed than suggested by the headline figures. Jobs growth remains concentrated in London and the South East, with unemployment much higher in the Midlands, the North and the Devolved Nations.

Whilst there may be more people in work than in 2008, the type of jobs people are doing has changed radically. There are over 300,000 fewer people employed in manufacturing and over 200,000 fewer employed in construction. Meanwhile, the number employed in health and human services (in particular in social care) has risen by over 400,000.

Broadly put, compared to early 2008 people are more likely to be working part-time, more likely to be self-employment and more likely to be working in a lower paying industry.

Earnings

The biggest cause for concern in the labour market is to be found in wage growth. Nominal earnings growth has been exceptionally weak since late 2009. Real wages (nominal wages minus inflation) have been falling since late 2009, the longest squeeze in earnings since modern records began in 1964.

Before the recession, average weekly earnings grew at a fairly consistent rate of 4.0% per annum; currently they are growing at an annual rate closer to 1.0%.

The falls in real wages have put household incomes under further pressure. Real Household Disposable Income per head (a broader measure than real wages than takes into account changes in the tax and benefits system and other sources of income) is below its 2009 peak and is actually lower than it was in mid-2012, when the current pickup in GDP growth began.

The productivity puzzle

Post-2008 the economy has been marked by exceptionally weak productivity growth. The flipside of strong employment growth (relative to output) has been a collapse in productivity.

Output per hour worked has fallen by almost five per cent in the past five years and is some 15% below its pre-recession trend.

While output remains below its 2008 level, employment (and hours worked) have both reached new highs. This trend seems likely to have continued into the fourth quarter of 2013 with output growth of 0.8% on the quarter and growth in hours worked above 1.0%.

In 2008 and 2009, many economists expected unemployment to rise by far more than it did. Despite a much more severe recession than in the early 1990s or early 1980s, unemployment rose (proportionately) much less than many feared.

Given this, some expected that any pickup in growth would see limited improvements in jobs. The logic was that employers had reacted to a downturn in demand by cutting wages and hours rather than staff and so once the upturn came they could simply increase working time and get more output from their existing workforce rather than hiring new people.

However, and again contrary to expectations, the recovery over the past year has been employment intense. This is what economists have called the productivity puzzle – output is still 1.4 per cent below its peak but the number of people in work is higher.

Broadly put there are two distinct ways this could be explained – either people have all generally become less productive at their jobs over the last five years or there has been some sort of change in the composition of the labour market (which may or may not be reversed as demand in the economy grows).

As noted earlier, while more people are in work, they are more likely to be in lower productivity jobs than in they were in 2008. This compositional change in the economy (more people in low productivity sectors, fewer people in high productivity sectors) may explain a great deal of the recent weakness in output per hour worked.

But other factors are also likely to be at work, including the decline of offshore oil and gas (a very high productivity sector that is in long-term decline as reserves are run down), reduced risk taking in the financial sector and the inability of start-up firms to get access to finance and grow. Weaker business investment will also have played a part, as all things being equal, less capital per worker should make workers less productive.

So a combination of compositional change, the decline of high productivity sectors, poor access to capital and weak investment have all contributed to exceptionally weak productivity performance. In addition, there is no evidence of a general decline in workers' productivity rates, or that new skills or regulatory barriers have suddenly started to hold the UK back. Rather we have experienced a huge shock to output which has led to sharp falls in profits and production.

The extent to which productivity will improve over the months ahead remains uncertain. As growth returns it seems likely that some productivity

improvements should emerge, as increased demand boosts output, which should start to rise more quickly than hours worked. But the risk also remains that after such a long period of recession and economic stagnation that permanent damage has been done to the UK's productive potential, and that challenges we faced before the financial crash have been exacerbated since. If productivity growth remains weak then any spare capacity will be used up as unemployment falls and the UK will find itself unable to expand supply to meet rising demand. This would result in high inflation and ultimately large rises in interest rates.

If this scenario is to be avoided then the Government must stop taking the recovery for granted and start to care about the composition and drivers of growth rather than simply hailing any sort of improvement has a success and vindication of its policy. The TUC believes there is a very real risk that the UK is now heading down the path towards becoming a lower productivity, lower waged economy. Tackling Britain's long-running problems of under-investment, short-termism and powerful property-related business cycles, alongside ensuring that any recovery is regionally balanced and actually filters through into rising household incomes, should therefore be key targets for policy makers seeking to build a sustainable and fairer UK economy.

Policy recommendations

As our analysis has shown, securing a stronger and better balanced recovery is vital both to medium-term growth and to protecting living standards in the future. Below we set out below the policy priorities the TUC believes are necessary to enable to secure this vital shift.

Boosting investment

With investment well down on its pre-recession peak, and our global competitors having already out performed us on investment growth for several decades, rising business confidence alone will not resolve our investment short-fall. Below we set out the policy changes we believe are needed to achieve a step-change in the UK's investment performance, considering how government capital budgets, corporate tax policy, corporate governance reform and the UK's banking system need to work together to secure a significant shift in UK's investment share.

Capital spending

Infrastructure

TUC commissioned research in May 2013 highlighted that investing £30bn in infrastructure projects over the next two years would boost growth in the short term, whilst increasing the UK's potential economic output in the longer term. This research, written by the National Institute for Economic and Social Research (NIESR) and using that organisation's highly regarded macroeconomic model NiGEM, found that such an investment in infrastructure raised potential output and thus GDP by up to 0.5 per cent on a permanent basis.

In 'Investing in Britain's Future', published by HM Treasury in June 2013, the government recognise that in recent decades the UK's investment history has slipped and that:

"This is not the fault of any one party or any one government. It's been the result of a collective national mindset that has privileged the short term over the long term, and has postponed difficult decisions."

The TUC welcomes this acknowledgement of the importance of infrastructure expenditure. This strategy has committed the government to publicly fund a pipeline of specific projects worth over £100bn over the next parliament, including over £70bn in transport, over £20bn in schools and over £10bn in

science, housing and flood defences. Annual investment in roads will be trebled by 2020-21, compared to today's levels.

The government also recently published its new infrastructure plan, which included commitments such as:

- The signing of an agreement with Hitachi and Horizon, to support the financing of the development of a new nuclear power station at Wylfa in North Wales, through a UK guarantee, subject to final due diligence and ministerial approval;
- Providing a further £50 million for a full redevelopment of the railway station at Gatwick Airport;
- Taking forward steps to convert public sector car fleets to electric vehicles investing £5 million in a pilot during the year 2014 to 2015;
- Confirming that a UK guarantee has now been agreed for the £1 billion Northern Line extension to Battersea, unlocking a development the size of the Olympics in the Nine Elms area.

But while the Government has taken the sensible step of setting out future spending priorities (which may encourage firms in the supply chain to begin investing now to prepare themselves to deliver it) the scale of their spending plans still lack ambition.

Public sector net investment (gross government capital spending minus the depreciation of existing assets) is set to be £24.9bn in 2013/14. Under the Government's current spending plans that is set to rise to £28.3bn by 2016/17. However net public sector investment was £49.0bn in 2009/10. So, despite the much trumpeted coming rise in net investment spending, this follows a cut of almost 50% in the past three years. Resorting capital spending to its 2009/10 level would require a rise of £24.1bn, against a planned increase of just £3.4bn over the coming three years.

HS2 represents a massive infrastructure investment for the UK, with the potential to transform not just the rail network and rail travel experience in the next generation but also a huge opportunity to secure significant employment growth in England's cities. It will also contribute towards rebalancing economic disparities between northern areas and the South East.

It is imperative that investment in the key destination hubs of Birmingham, Manchester, Sheffield and Leeds takes place ahead of HS2 in order to maximise the economic growth potential it brings. Estimates suggest 100,000 plus jobs could be created in these areas through improved connectivity and increased access to and labour markets. Regeneration in and around destination hubs (and investment in local connectivity to those hubs) will be critical to ensure that potential is reached.

The government should therefore consider how it can support locally-led, accountable investment and regeneration models, to ensure the development needed to secure the opportunities HS2 offers.

Alongside direct capital spending, the Government is seeking to boost infrastructure spending through the UK Guarantees Scheme which provides off balance sheet guarantees of funding to providers. This is a sensible policy move and has helped counter some of the funding difficulties caused by tight credit conditions that have acted as a restraint on large projects. However the UK Guarantee Scheme is limited to £40bn of guarantees for infrastructure projects, which compares to a limit of up to £130bn for the Government's Help to Buy scheme to support mortgage lending. A far larger commitment is needed if this programme is to achieve a real shift.

Finally, the Government has also taken steps to increase capital allowances which firms can use to reduce their tax bill if they increase investment). The TUC supports this move and believes that capital allowances are a far more targeted and efficient approach to increase business investment than cuts in headline corporation tax.

The TUC calls on the government to:

- **reinstate a far higher proportion of recent capital spending cuts than are currently planned;**
- **support locally-led investment and regeneration models to maximise the regional benefits of HS2;**
- **increase the scope of the UK Guarantees scheme to match the scale of the Help to Buy initiative;**
- **reverse planned corporation tax reductions (with the rate set to fall from its current 22% to 20% by April 2015), reinvesting the money in capital allowances.**

Housing

The UK suffers from an entrenched housing shortage, which has a detrimental effect on the nation's health, education and labour mobility. Homebuilding is stuck at a historically low level, with just 26,100 new homes completed in the third quarter of 2013, the smallest amount since records began[1]. Meanwhile, the waiting list for social housing has reached 1.7 million in England alone[2].

The housing market is now starting to recover, with house sales up 21 per cent during the past year. House prices are also starting to increase in many parts of

[1] House building: permanent dwellings started and completed, by tenure, England, DCLG live table 213: https://www.gov.uk/government/statistical-data-sets/live-tables-on-house-building

[2] Local authority waiting lists (England), DCLG live table 600, https://www.gov.uk/government/statistical-data-sets/live-tables-on-rents-lettings-and-tenancies

the country, but the 4.4 per cent rise in England during the past year disguises strong variations between regions[3].

Investing in homes is implicitly desirable in its own right, but it is also an effective way of stimulating the broader economy. For example, the National Housing Federation estimates that building 10,000 extra affordable homes each year would add about £1.1 billion to the UK economy[4], whilst Oxford Economics have said that for every £1 spent on housing (whether public money or private) £1.40 of wider economic benefit is generated[5].

In terms of action so far, the government's Help to Buy scheme has had a modest positive impact. Although the majority of loans were reasonably priced, about five per cent were for homes in the £350,000 to £600,000 bracket[6]. The TUC believes that this public money should be exclusively targeted on first-time buyers.

In terms of scale, Help to Buy is likely to amount to about two per cent of all mortgages in the current financial year. Clearly more is needed, but better access to finance has to be accompanied by more construction in order to avoid re-inflating the housing bubble. The Get Britain Building initiative may help build up to 5,000 homes per year, however, the TUC's estimate is that the UK needs to build at least 65,000 more houses per year just to stop the situation getting worse.

These initiatives are funded by the DCLG's programme budget, which is set to be reduced by 31 per cent next year. Given the severity of the homes crisis, the DCLG's housing budget should be protected during the coming year.

The social housing stock is being eroded by the combination of Right to Buy and a low rate of new build. In particular, local authority building is at a record low. The government needs to support and incentivise local authorities to build more social and affordable housing. This means that direct financial support for local government should not suffer a further cut this year, and that local authorities should be allowed to borrow more against future rental income in order to build more homes.

The TUC calls on the government to:

- **limit the support available under Help to Buy to first-time buyers;**
- **protect the DCLG budget so that more help can be given to combat the housing crisis; and**
- **maintain financial support for local government home-building and lift the borrowing caps that apply to local authorities.**

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[3] Land registry for England and Wales, House Price Index Statistical Report, January 2014 http://www.landregistry.gov.uk/

[4] http://www.housing.org.uk/policy/localism/local-enterprise-partnerships

[5] www.oxfordeconomics.com/publication/open/224366

[6] https://www.gov.uk/government/publications/help-to-buy-equity-loan-scheme-and-newbuy-statistics-april-2013-to-september-2013

Green economy

New energy infrastructure investment is also essential to secure the UK's climate change objectives, both by supplying secure, affordable and low carbon energy and increasing energy efficiency in domestic buildings and industry (especially our energy intensive industries). Investment in carbon capture and storage technology and in domestic energy efficiency are two standout priorities.

CO2 transport and storage infrastructure is a vital transitional technology. A new study[7] by the TUC and the Carbon Capture and Storage Association (CCSA) argues that an ambitious roll-out of carbon capture and storage (CCS) technology would not only cut carbon emissions, but generate a large number of jobs, create a market worth £15-35bn by 2030 and reduce household electricity bills by £82 a year. 'The Economic Benefits of CCS in the UK' shows that CCS is not only essential to reduce carbon emissions from coal and gas power stations, but also to help the UK to retain existing energy intensive industries, notably chemicals, steel and cement manufacture.

The UK has the opportunity to become a leading global player in the CCS sector, and the TUC has welcomed the government's £1bn competition to support up to four CCS power projects. But Budget 2014 should signal the government's intention to go well beyond the first two pilot projects to a full scale CCS programme for power and industry, focused on CCS pipeline and storage infrastructure in key industrial regions, particularly the Aire Valley and Teesside.

The government also needs to urgently address the failings of its domestic energy efficiency scheme, the Green Deal. Rising energy bills are squeezing living standards, yet the Green Deal is dramatically underperforming. The government projected that 130,000 households[8] would take out a Green Deal loan in 2013, but just 1,612 households had Green Deal[9] loan schemes in progress by December 2013.

The government has failed to create demand for its new scheme, both because the typical eight per cent interest rate makes the deal unattractive, and because bill savings go entirely to service the loan. The government needs to urgently introduce new ways to reduce the interest rate payable on Green Deal loans. The Green Investment Bank could play a much larger role, following the example of the KfW bank in Germany which provides low interest rates.

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[7] *The Economic Benefits of CCS*, 2014: http://www.tuc.org.uk/industrial-issues/energy/clean-coal-task-group-cctg/manufacturing/carbon-capture-storage-technology

[8] *Help to Heat*, ippr 2013: http://www.ippr.org/images/media/files/publication/2013/04/leading-the-charge_ULEVs_Apr2013_10620.pdf

[9] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/273805/Statistical_Release_-_Green_Deal_and_Energy_Company_Obligation_in_Great_Britain_-_21_Jan_2014.pdf

The TUC calls on the government to:

- **signal the government's intention to commit to a full scale carbon sequestration programme for power and industry, focussed on CCS pipeline and storage infrastructure in key industrial regions;**
- **reduce the interest rate payable on Green Deal loans, providing a new role for the Green Investment Bank following the example of the KfW bank in Germany.**

Corporate governance reform

The UK's current corporate governance system is based on what can be termed 'shareholder primacy' or 'shareholder value'. There are two key elements to this: shareholder rights and directors' duties. But changing patterns of share ownership in recent years present a major challenge to the reliance on shareholder engagement within the UK's corporate governance system. In the 1960s, the majority of shares in UK companies were owned by individuals, many of whom took a reasonable level of interest in the companies whose shares they owned. By the 1980s, the majority of shares were owned by UK institutional investors such as pension funds and insurance companies. Today, this has changed again. The most recent figures from the Office for National Statistics (ONS) show that by the end of 2012, UK pension funds and insurance companies held just 4.7 per cent and 6.2 per cent of UK equities respectively, the lowest percentages since the survey started in 1963. While individuals held 10.7 per cent of equities, investors from outside the UK owned 53.2 per cent of UK listed shares.

It will by definition be harder for investors from outside the UK to develop the kind of engaged relationships with UK companies that are required if the UK's corporate governance system is to work as intended, and engagement between UK investors and companies is also problematic. There is also a more fundamental problem with shareholder primacy. The justification put forward by the Company Law Review for the privileged position of shareholders within the UK's corporate governance system was that in the long-term the interests of shareholders converge with those of other stakeholders and that long-term shareholder interests are best served by companies that develop a long-term approach to company success. However, this convergence of interests only holds true if shareholders are long-term investors whose economic interest in a company is in receiving dividend payments over a significant period of time. If, on the other hand, the shareholder is a short-term share trader whose economic interest is in selling the company's shares for more than they bought them for, their interest will be in short-term strategies to boost the company's share price, regardless of the impact on long-term, organic company growth. In this case, the investor's interests will not coincide with those of other company stakeholders, nor, crucially, with the long-term interests of the company itself. If the investor is shorting the stock, their interests will actually be diametrically

opposed to those of other company stakeholders, including long-term shareholders, and indeed the company, as they will stand to gain if the company's share price falls. In this scenario, it is impossible to justify why shareholders are the group whose interests companies are required to promote, and why shareholders have the ultimate say over how companies are run.

The TUC strongly believes that there is no logical reason why our corporate governance system should prioritise the interests of share traders over those of other stakeholders, nor why share traders should occupy such a privileged position in terms of their rights in relation to companies. Fundamental reform of our corporate governance system is necessary and increasingly urgent.

The TUC calls on the government to:

- **Recognise the inadequacies of the UK's reliance on shareholders to hold Britain's boardrooms to account, and place restrictions on the powers of short-term shareholders to influence significant corporate decisions. This should involve moves to:**
  - **reframe directors' duties to make directors' primary duty the promotion of the long-term success of the company, rather than prioritising shareholders' interests as at present;**
  - **restrict shareholders' corporate governance rights (including voting rights) to those who have held shares for two years or longer.**

Banking reform

Another part of the investment puzzle will be solved with banking reform. Even before the crash non-financial, non-real estate companies represented only 1% of outstanding bank loans in the UK, and since 2008 the picture has become even tougher for companies seeking loan finance. Recent Bank of England data show virtually no recovery in access to bank finance for non-financial sector companies since the dramatic falls of 2009, since when lending rates have stagnated.

A successful banking sector would help alleviate four challenges facing the UK economy: the low level of business investment, the lack of support to help SMEs grow, the sectoral and regional imbalances across the UK and the need for greener, more environmentally sustainable growth. It would be marked by a focus on the building of long-term, real economy value rather than on short-term high risk/high reward speculative activity.

But Britain's banks are currently failing to deliver on these ambitions, and the long running problems of the banking sector cannot be addressed by changes in taxation and regulation alone (although reforms to both are needed) but will require reform of the entire structure of banking in the UK. Our current institutions are simply not fit for purpose.

One reform needed to the banking system is the establishment of a State Investment Bank to address infrastructure funding and SME financing. The TUC has welcomed the establish of the British Business Bank but believes it needs significantly more capital, full borrowing powers and a much wider remit. Similarly, we recognise the potential of the Green Investment Bank (GIB) to fund our vital transition to a lower carbon future, but are concerned that without vital borrowing powers the 'bank' remains little more than a fund.

The effectiveness of the GIB is shown by assessing its first 25 projects[10], involving renewable energy, efficiency and other sustainable investments. These were secured from GIB co-investments totalling £764m from the bank's £3.8bn budget, and are due to leverage in a total of £3.2bn when projects are fully deployed. Yet the GIB's capital represents less than one per cent of the UK's anticipated infrastructure investment required to 2020.[11]

The TUC would like to see a more diverse banking system in the UK. More mutually owned banks, for example, would help address some of the issues around short-termism and corporate governance problems. In some countries the existence of regionally focused banks has helped to address regional inequalities.

A diverse banking system with many more players focused on different geographies, different sectors and different types of banking would be more supportive of the real economy, less at risk from the failure of any one institution and probably marked by less excessive remuneration. This could involve the Government providing initial capitalisation to a network of small regional development banks, which could draw on intelligence from local business people and trade unions. Should a state investment bank be established, it could also lend, in the same way as Germany's KfW, directly to regional banks.

The TUC calls on the government to:

- **widen the remit of the British Business Bank to enable it to focus lending on high-growth small businesses and infrastructure projects;**
- **provide the British Business Bank with an increased capital base and with the power to borrow from the capital markets;**
- **increase the capitalisation of the Green Investment Bank allowing it to issue green bonds**
- **expand the remit of the Green Investment Bank to include community energy projects, home energy efficiency schemes and significant major infrastructure investments;**

[10] http://www.greeninvestmentbank.com/userfiles/files/Presenting-our-investments-14Jan13.pdf

[11] *Greening the Recovery: The report of the UCL Green Economy Policy Commission*, 2014: https://www.ucl.ac.uk/public-policy/Policy_Commissions/GEPC/UCL_GEPC_Report_Final.pdf

- **develop proposals to establish a network of regional development banks.**

Active government

There is now welcome and widespread recognition across the political spectrum that rebalanced economic growth will not simply emerge on its own, and that across the developed world active governments are vital to maintaining economic competitiveness. Below we set out where we believe the government needs to go further to boost the UK's economic performance, considering areas including industrial policy (with a particular focus on the UK's energy intensive industries), procurement policy, science policy, skills policy, the importance of workforce engagement and the role of high quality public services in supporting economic success.

Industrial policy

Industrial policy is the new normal. When the TUC published 'An Industrial Strategy for the United Kingdom' in 2005, we were a lonely voice. But since then, and particularly since the economic downturn, a welcome consensus has developed that a modern industrial strategy is essential if UK plc is to prosper in the age of globalisation. As the Business Secretary Rt Hon Vince Cable MP said in September 2012:

"The government shapes the British economy with its decisions every day. It makes many decisions about skills and universities, on research, on technologies, and on infrastructure. Through what it buys, and how it goes about buying it, the regulations that exist, the markets it oversees, and tax policy. All of these send messages to the economy. We can have an industrial strategy by default or design. Ignoring this reality is not a policy - it is just negligence."

The government's approach has included identification of eleven such sectors: aerospace; agricultural technology; automotive; construction; international education; life sciences; nuclear; offshore wind; oil and gas; and professional and business services. Commitments have also been made that long-term stability will be maintained in science investment, underpinning investment in key Research Council priorities and new technologies including big data and robotics.

The TUC supports this industrial policy approach, although we would like to see full recognition given to the important voice of employees in each of the sector councils the government has established to drive its strategy forward, as well as increased government investment in the important new structures which have been established (matched by employers contributions).

The TUC agrees with many employers' arguments in support of greater industrial strength. For example, the CBI report 'Raising the Bar', published in September 2013, called for action to strengthen UK supply chains, with

suppliers struggling with access to skills, often being unwilling to embrace technology and facing difficulties in accessing finance. Recommendations, including those making the case for long-term government funding for the Advanced Manufacturing Supply Chain Initiative are well made and should be supported.

However, in some circumstances it is business that must invest more. The report 'Catapult to Success' from the Big Innovation Centre[12] set out what a good catapult centre should look like. Catapults are based on the German Fraunhofer model and have long been supported by the TUC. UK Catapult Centres are not as large and effective as their German sister organisations, which is no surprise given that they are a relatively new venture. However, in order to become more effective, they must be properly funded and most of this funding should come from business, including SMEs where appropriate. In the UK, 47 per cent of Catapult funding comes from the public sector, compared to 45 per cent from commercial revenue. The Big Innovation Centre suggests that no more than one third of Catapult funding should come from core government funding and that half of all funding, a figure that should increase over time, should come from commercial income from businesses. Of course, this means that Catapults must attract private sector support for their activities, but with senior managers serving on supervisory boards of Catapults, this should not be difficult and business should see such support as an investment.

Our industrial policy approach also needs to consider how the UK can maximise the benefits from Asia's rapid and ongoing economic development. The TUC will shortly publish 'The Way of the Dragon', an in-depth analysis of economic trends in China, South Korea and Singapore including recommendations for how the UK can compete in a global economy. The challenge is formidable, yet so is the opportunity. China's increasingly prosperous population is increasingly able – and willing – to buy western goods. If we get the policy mix right, China's growth could provide a win-win occasion for both its own people and those of the UK to reap economic rewards.

'The Way of the Dragon' calls on the government to undertake a major study of where the UK could export to China. This work should focus on identifying growth areas of the Chinese economy whose needs Chinese firms themselves cannot meet and where UK companies have the skills, technology and experience to meet this gap in the market.

The analysis also demonstrates the importance of government in supporting innovation. There is a compelling case for increasing the budget of the Technology Strategy Board in order to increase the UK's investment in Research and Development (an issue discussed further below). A step change in innovation spend is required if we are to meet the Asian challenge.

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[12] http://www.biginnovationcentre.com/Assets/Docs/Catapult%20to%20Success%20report%20final.pdf

Finally, the importance of building stronger links with China is growing daily, as are the economic risks of migration policies which could serve to undermine them. It therefore makes the case for student fees for overseas students to be re-examined, with the view to make the UK one of the best destinations in the world for attracting Chinese students.

The Transatlantic Trade and Investment Partnership (TTIP) being negotiated between the EU and the USA could benefit the UK economy, and the TUC would support a deal that delivered more and better jobs, higher pay, improved standards of living and enhanced rights at work. But we are concerned about the secrecy in which the deal is being negotiated. An agreement which brings lower consumer, environmental and workplace standards, more power for foreign investors to restrict what governments can do (such as returning elements of the NHS to the public sector), and greater liberalisation and deregulation will not bring the economic and social gains the UK needs .

The TUC is calling for greater openness and accountability in the negotiations, and a stronger role for unions and employers to work together at a sectoral level (including better analysis of the opportunities and threats - and more work to mitigate negative impacts). We are opposed to the use of Investor-State Dispute Settlement (ISDS) mechanisms and other restrictions on the right of democratically elected governments to decide the extent of the public sector and to any moves to reduce regulatory protections, especially in the finance sector.

The TUC calls on the government to:

- **commit to ensure there is at least one trade union representative on each of its industrial councils;**
- **commit to increase expenditure in support of supply chains, including the Advanced Manufacturing Supply Chain Initiative;**
- **undertake a major study of where the UK could export to China;**
- **significantly increase the funding of the Technology Strategy Board;**
- **re-examine student fees for overseas students, with the view to make the UK one of the best destinations in the world for attracting Chinese students;**
- **give a stronger role to unions and employers in the negotiations of the TTIP.**

Industrial policy for the UK's energy intensive industries

The TUC has welcomed the government's initial support for energy intensive industries, which include iron and steel manufacture, cement and lime, ceramics, chemicals and glass, and form the bedrock of the UK manufacturing

sector. They provide a combined turnover of £95bn and direct employment for 160,000 people, with four times that number in supply chains.

But the particular and intense pressures facing these businesses is revealed in forthcoming TUC research into the competitiveness of heavy energy users. We have found that significant further interventions are needed to support them through a sustainable transition to a lower-carbon economy. Electricity prices in the UK for intensive consumers are higher than for key competitors, while the cost of subsidising renewables through the Renewables Obligation remains a significant burden. In addition the Carbon Price Floor involves a surcharge on electricity costs not found elsewhere in Europe, and some sectors are largely excluded from existing government support mechanisms.

Two decades or more of investment and innovation by the eight most energy intensive industries have led to significant energy and carbon savings, but the cumulative impact of energy and climate policies now risks reducing industries' competitiveness and capacity to further invest. If applied unilaterally across the UK, government energy policies risk distorting international competition and compromising the further survival of UK energy intensive businesses.

The following examples highlight the burdensome impact of government energy and climate change policies. For example:

- Celsa UK's electric arc furnace in Cardiff, where scrap steel is recycled into new steel, is the UK's largest producer of steel reinforcement[13]. The company invested £90 million in a state of the art melt shop in 2006 and the Cardiff plant is apparently so energy efficient it presents few opportunities for reducing carbon emissions or the company's £50 million annual electricity bill. However, as a result of UK energy and environmental policy, including the Renewables Obligation, it also faces the highest electricity prices across the Celsa Group's European estate.
- The ceramics industry is a cornerstone of the UK's construction sector, including brick, tile and pipe manufacture for housing and infrastructure projects. The government's EU Emissions Trading Scheme support mechanisms designed to assist electro-intensive users completely bypass the ceramics sector. With 85 per cent of energy demand supplied by gas, the sector is not deemed sufficiently electro-intensive to qualify. Yet within ceramics, electro-intensive installations account for a tenth of installations and electricity used.[14] Several electro-intensive manufacturers have relocated overseas, drawn by lower energy costs. Trade figures show rising imports; carbon leakage is occurring.
- The mineral products industry, principally cement and lime manufacture, accounts for £4 billion of annual gross value added (GVA) and directly

[13] Celsa steel emits 270 kg CO2 / tonne of steel produced (2012 figure), against a benchmark of 285 kg CO2/tonne for the best 10 % of electric arc furnace steelmakers in Europe.
[14] Walking the carbon tightrope: energy intensive industries in a carbon constrained world, forthcoming study by Orion Innovations for the TUC (2014).

employs 70,000 people. Cement alone has achieved carbon emission reductions of 55 per cent since 1990, through investment in efficient plant and rationalisation. Yet carbon emissions in both cement and lime manufacture are largely governed by the inherent chemistry of industrial processes involved. Future opportunities to reduce carbon emissions are highly dependent upon carbon capture and storage technology being commercially available and deployed at scale, as well as upon investment in alternative fuels; and input substitutes such as clinker.

A number of particular policies are causing significant challenges for these industries.

Combined heat and power (CHP) plant on industrial sites, notably paper and chemicals manufacture, provide industry with significant opportunities to reduce their carbon emissions. But in Budget 2013, the Chancellor removed CHP Levy Exemption Certificates (LECs), the only real financial incentive to invest in industrial CHP. The surcharge has further eroded the economic case for CHP, both new and existing plant.

Separately, the Carbon Price Floor (CPF) is a UK-specific carbon tax on fossil fuels used to generate electricity. It sets a minimum price for carbon to supplement the weak market price of carbon under the EU ETS. It has provided revenues of £600m in 2013-14, rising to £1 billion from April 2014. The government initially believed that the tax would incentivise investment in low carbon technologies. But the CPF has faced significant criticism for its pass through impact[15] on the competitiveness and sustainability of UK industry relative to the EU and rest of the world. Industry bodies are now concerned that this unilateral measure will widen the gap further between costs faced by the UK's electro-intensive industries and our competitors, unless offsetting measures are provided. We support the fight against climate change and recognise that an effective floor price of carbon should encourage investment in alternative sources of energy. But we are concerned that the UK's standalone carbon price is far out of line with the EU carbon price, and is leading to carbon exports.

The TUC calls on the government to:

- **urgently reinstate levy support for existing CHP power plants;**
- **freeze the Carbon Price Floor from April 2014 and consult with unions and industry on its reduction through to 2020-21;**
- **provide energy intensive industries with relief from the Renewables Obligation;**
- **widen the scope of its compensation package to include sectors and businesses that do not qualify under the EU Emissions Trading Scheme and**

[15] Cornwall Energy estimate that a gas-fired power station will pay £1.85 per megawatt hour (MWh) on fuel in 2013-14, rising to £6.80/MWh in 2015-16. By 2020-21 with a Carbon Price Floor projected to be worth £30 per tonne, the tax on electricity production from a gas power could reach £10.25/MWh.

develop a similar support scheme for gas-intensive heavy industry;

- **consult with industry and trade unions on extending the duration of the package in line with the decade-long periods of support provided by our main European competitors.**

Procurement policy

The TUC has long campaigned for public sector procurement to be used proactively to improve jobs and skills in the UK, to promote equality and to assist the UK's transition to a greener economy. We have been encouraged by recent announcements from the Cabinet Office that government will use procurement policy to boost British industry by, for example, publishing forward plans for a range of industries, including construction, wider infrastructure and information and communications technology, thereby allowing British companies to plan in advance.

However, problems still exist. A July 2013 report into government procurement, published by the Public Administration Select Committee (PASC) and to which the TUC gave evidence, stated: "The Government has failed to set out a clear strategy for public procurement. The Cabinet Office needs urgently to address this, setting out clear procurement objectives and timescales for their achievement."

The TUC would particularly endorse paragraph 49 of the Public Administration Committee's report, which states:

"Setting wider contract performance measures—such as the creation of apprenticeships—is one means of ensuring procurement spending achieves additional social or economic impact which could be employed more widely across Government. *The Cabinet Office should provide guidance to government departments on how to use the scope within the existing EU procurement directives to maximise value for the UK economy, for example through greater use of appropriate contract performance measures*".

The EU Directives to which PASC refers are to be replaced by new Directives, which will be transposed into UK law this year.

The TUC calls on the government to:

- **ensure that the new EU procurement directives are introduced in such a way as to maximise opportunities for contracting authorities to boost jobs, skills, equality and sustainability through their purchasing power.**

Science policy

The TUC welcomes the government's commitment to the 'Eight Great Technologies' but is concerned by cuts and deficiencies in other areas. For example, the House of Lords Science and Technology Select Committee report,

'Scientific Infrastructure', published in November 2013, raised a number of significant concerns, including:

- a lack of clear long-term strategy and investment plan;
- a series of ad hoc announcements which have militated against long-term planning;
- a damaging disconnect between capital investment and funding for operational costs;
- insufficient attention to the need to ensure a suitably skilled workforce, including accounting for training costs and facilitation of viable career paths;
- erosion of the ability of Public Sector Research Establishments (PSREs) and national laboratories to deliver national objectives due to underfunding;
- and the wide variety of funding and governance models.

In October 2012 the former Deputy Prime Minister Lord Heseltine published *'No Stone Unturned in Pursuit of Growth'*. This included a recommendation that the government should commit to the long-term stability of the core funding of science and research at a level which keeps pace with our international competitors.

While international comparisons of science spending are not straightforward (as different countries measure such spending differently) the National Audit Office quotes OECD figures showing the UK in 17th place when comparing spending on research and development as a percentage of GDP (so-called 'R&D intensity') in 2011. The UK scored lower than Israel, Finland, Korea, Sweden, Japan, Germany, the United States, France and even the Czech Republic. The UK's percentage spend of 1.77 per cent of GDP fell significantly short of the Europe 2020 target of three per cent.

The UK needs a shift in its research spending. With Korea spending five times as much on research and development as the average European country, we cannot possibly win the "global race" unless we undertake such a change.

The TUC calls on the government to:

- **commit the UK to reaching the Europe 2020 target of three per cent of GDP spent on R&D in the year 2020, setting out gradual targets for increases in R&D spending for each year between now and then.**

Skills for growth

Two recent large-scale surveys have served as a wake-up call on the urgency of the skills challenge we face and the need for government to act. Last year the OECD published a new groundbreaking adult skills survey with a focus on literacy, numeracy and problem-solving skills. The survey findings raised a number of major concerns around the proficiency of many UK adults in these

skills and also demonstrated how little progress there has been in equipping recent labour market entrants to achieve minimum standards. The OECD recommended that countries such as the UK need to undertake a two-fold policy approach to meet these challenges, ensuring that all school pupils are empowered to acquire minimum skill standards and that adults are given the opportunity to develop and maintain them, especially in the workplace.

In February of this year the UK Commission for Employment and Skills (UKCES) published its biennial Employer Skills Survey based on over 90,000 responses from business. This paints a much divided picture of learning and development in our workplaces: a third of all employers are still not offering any form of training to any of their staff and 38% of employees say that they received no training over the past 12 months. This national skills deficit is also a potential brake on economic recovery with the survey indicating that skill shortage vacancies now represent over a fifth (22%) of all vacancies compared to 16% two years ago.

In light of these trends the TUC has significant concerns about forthcoming reductions in skills funding over the coming period. The adult (19 years+) skills budget is set to be reduced by a fifth, comprising a cut of nearly £0.5 billion over the coming two years. In addition, from September 2014 funding for 18 year-old students will be cut by 17.5 per cent. With significant need for skills improvements such dramatic spending reductions are simply counterproductive.

The TUC has welcomed the government's continued commitment to invest in spending on expanding apprenticeships and traineeships for young people whilst also supporting adults to gain minimum standards in English and maths. Union learning reps, with the support of the Union Learning Fund, are continuing to play a crucial role in supporting individuals and employers to benefit from these training subsidies while also encouraging increased employer investment in the skills of the wider workforce.

However, the downside of existing skills policy is that there is now virtually no government subsidy for skills development for the adult workforce outside of these priorities. In addition, since last autumn all adults aged 24+ have been obliged to take out a loan to pay for the costs of any vocational course at an advanced level (i.e. Levels 3 and 4). Providing some form of training tax relief to adults would mirror recent proposals to redirect a significant proportion of apprenticeship funding to employers via the PAYE system. The TUC supported this proposal in principle albeit with caveats including the need for unions and employees to have a greater strategic say in apprenticeship training (as they do in many other European countries with highly respected apprenticeship systems).

The TUC therefore believe that if we are to support many more adults to up-skill or re-skill to achieve qualifications at Level 3 and 4, there is a strong argument for using the PAYE system to incentivise learners. We would like

government to review the options for establishing some form of training tax relief for adults. We believe that this proposal should focus particularly on those learners who are now required to take out loans to pay the full cost of advanced vocational training.

Our evidence further suggests that this could be a cost-neutral policy if the government made savings by remodelling current tax relief given to employers for work-related training. A previous policy paper commissioned by unionlearn[16] estimated that the total cost of this relief to the Exchequer is in the region of £5 billion per annum, with little available data on how this relief is used by those employers that qualify for it. The unionlearn paper concluded substantial savings could result from reform of this tax relief which could be used to introduce new individual tax relief arrangements for adults.

With respect to young people, the key policy challenge continues to be the need to enable increased access to high quality apprenticeships while also ensuring that the new traineeship programme supports many more opportunities for progression to such apprenticeship places. The TUC has supported the broad direction of the reform of apprenticeships instigated by the Richard Review while continuing to highlight the extent of poor quality placements experienced by too many young people as well as the widespread contravention of the National Minimum Wage among young apprentices.

However, there are also major challenges facing the traineeship programme including incentivising individuals and employers to participate. The TUC has received feedback from a number of sources that many young people on JSA are being financially disadvantaged by participating in traineeships because they have to pay additional costs for lunches, transport and other necessary expenses. There is also evidence that when employers attempt to compensate young people for incurring such expenses (e.g. by reimbursing them for public transport fares) this money is being clawed back from young people's JSA, leaving them much worse off than if they did not participate.

This is clearly a huge disincentive for young people to attend a traineeship and the TUC is calling on the government to instigate practical measures to allow employers to reimburse young people without it affecting their benefit entitlements. This could be achieved by establishing a "benefit disregard" which could allow eligible expenses to be paid by employers and providers, within a specified limit, so that Jobcentre staff would no longer be obliged to deduct these costs from a young person's JSA entitlement. In the short-term, guidance could be issued to Jobcentres making clear that if young people on Traineeships receive expenses payments, these do not need to be taken into account for JSA purposes.

[16] Reed, H. (2011) Tax Relief on Training: investigating the options for reform, unionlearn, March 2011

Careers advice for young people is another area of key TUC concern. The increase in youth unemployment over recent years has coincided with the dismantling of the careers services previously available to young people (e.g. the ending of the Connexions service). There is a wide ranging consensus that shifting the duty of careers provision to schools, without providing additional funding for doing so, is not providing young people with the high quality careers guidance they need. Access to good quality independent and impartial careers guidance is essential for all young people and research has shown that face-to-face careers guidance is most appropriate. To ensure that young people gain the skills to meet their aspirations and the needs of their local economies, the government should establish a new entitlement that every young person should receive professional, independent, face-to-face careers guidance in Year 8 and once again in Year 10.

The TUC calls on the government to:

- **urgently reconsider the scale of the forthcoming cuts to the adult and youth skills budgets;**
- **establish some form of training tax relief for adult learners, focusing in particular on those who currently have to take out loans to pay for the full cost of advanced vocational training;**
- **introduce practical measures to allow employers to reimburse young people for necessary expenses (e.g. transport, lunch etc.) when participating on a traineeship without this affecting benefit entitlements;**
- **introduce a new "careers guidance entitlement" for all school pupils giving them access to professional, independent, face-to-face careers guidance in Year 8 and once again in Year 10.**

Supporting employee voice

Government also has a responsibility to establish structures which ensure that businesses can fully realise the gains from engaging and consulting with their workforces. Of course the best employers already recognise trade unions and work within strong collective agreements, but there is more than can be done to create a climate in which more businesses can realise the gains that good workforce relations can bring and to widen the means by which employees can support good business decision making.

Later this spring, the TUC will publish a new analysis of how the Information and Consultation of Employees (ICE) regulations should be improved. This report will build on lessons from Sweden and France, comparing their models of employee voice with those of the UK. The TUC believes that one particular change which could serve to enhance the value of these regulations would be the removal of the trigger threshold, where the support of ten percent of employees in the workforce is needed before employers respond to a request to consult.

A government with a serious commitment to building more productive companies would also take action to improve 'economic democracy' in Britain's workplaces. The TUC believes that it's time to take a fresh look at the role that wider stakeholders should play in our corporate governance system – including those companies often describe as "our greatest asset". Workers could play a vital role in making their companies fit for purpose in the 21st century and help build genuine economic democracy. No company can succeed without dedicated and skilled staff, and no one knows a company better than its workforce. After all, whose interests are better aligned with long-term company success than the working people whose livelihoods and communities depend on it?

The majority of other EU countries, including many of the most successful, have well-established systems for workers to be represented within corporate governance, usually through representation on company boards. The TUC believes that corporate governance is in urgent need of reform and the time has come for the UK to join the mainstream and put in place its own system of worker representation, up to and including board level.

The TUC calls on the government to:

- **remove the ten per cent voting threshold which hampers the effectiveness of the information and consultation regulations;**
- **consult on proposals to introduce a UK system of worker board level representation.**

Responding to climate change

An active and environmentally aware government also needs to meet the pressing challenges of the future, and if our future economic growth prospects are to be protected that means securing an equitable transition to a low carbon economy.

In recent months the TUC has been concerned that much government rhetoric on green energy subsidies and climate change has been creating an uncertain economic and policy environment for major investors looking to boost clean energy production.

We are also worried that during the lifetime of this Parliament, climate change adaptation has become the poor relation of the UK's climate change strategy with reduced expenditure on flood defences, cuts to essential staff at Defra and the Environment Agency and the removal of local authorities' duty to prepare for climate change. The government urgently needs to rebalance its approach to ensure strong roles for both climate adaptation as well as mitigation of our carbon emissions.

The recent floods have shown that our changing climate is affecting the UK at home and it is a matter of real concern to the TUC that our flood defence

budgets have been inadequate in face of significant risks to life and livelihood. An adequate response would require an additional £500m in the period to 2020-2021 on flood defences, and cancellation of plans to cut 1,700 Environment Agency staff. Defra's UK Climate Change Risk Assessment 2012 concluded that, *"Increasing flood risk is the greatest threat to the UK from a warmer world…The risks of flooding are projected to increase significantly across the UK."*

Research by the House of Commons Library[17] shows that central government spending on flood defences in 2010-11 was cut soon after the government was formed. Spending was reduced in year by £30 million or 5%. In the 2010 Comprehensive Spending Review (2011-12 to 2014-15), a total of £2.17 billion in central government funding was provided for flood and coastal defence. This represented a six per cent fall in central government funding.

The Environment Agency's long term investment strategy[18] assessed future funding needs and what the overall level of flood risk might be as a result in 2035. It took as a baseline the agency's original 2010/11 flood defence budget (£679 million), as set by the previous government in 2007, of which £570 million was due to be spent building and maintaining flood defences. Spending plans for this period are more than half a billion pounds below the amount agency estimated to avoid risks increasing in the long-term. The Committee on Climate Change[19] has endorsed expenditure forecasts the Environment Agency has made, noting that "flood defences on average prevent £8 in future flood damage for every £1 spent."

The Environment Agency's plans to cut 1,700 staff[20] from its 11,400-strong workforce will affect its ability to respond to future floods. There will be a proportionate reduction in the number of people involved in flood risk management – apparently 15% of cuts are likely in this area. In 2012, the agency redeployed 800 non-frontline staff to deal with flooding.

The Pitt Review following the 2007 floods recommended that flood spending should increase substantially. The Fire Brigades' Union has called for a new statutory duty on local authorities to respond to major flooding. But we have not had a national flood response programme with a single focus and proper funding under any government. A single agency should be responsible for flooding, between the Environment Agency, the local authorities, and Defra.

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[17] Flood defence spending in England - Commons Library Standard Note, February 2014: https://www.google.co.uk/search?sourceid=navclient&ie=UTF-8&rlz=1T4ADFA_enGB470GB470&q=http%3A%2F%2Fwww.parliament.uk%2Fbusiness%2Fpublications%2Fresearch%2Fbriefing-papers%2FSN05755%2Fflood-defence-spending-in-england+

[18] http://www.theccc.org.uk/wp-content/uploads/2014/01/2014-01-21-ASC-Policy-Note-flood-defence-spending-FINAL.pdf

[19] http://www.businessgreen.com/bg/interview/2328003/committee-on-climate-change-chief-calls-for-uk-flood-policy-overhaul

[20] http://www.businessgreen.com/bg/news/2303155/environment-agency-set-to-shed-15-per-cent-of-workforce

The workforce should also be represented to address resourcing concerns such as training and equipment and adequate staffing levels.

The TUC calls on the government to:

- **invest an additional £500m annually on flood defences;**
- **permanently cancel plans to cut 1,700 Environment Agency staff;**
- **create a single agency responsible for flooding.**

A fair recovery

A stronger recovery will also be a fairer recovery. That means we need to build an economy which focuses on boosting employment, raising household incomes and protecting and improving our vital public services. As IMF research has recently shown, measures that promote a fairer and more equal society are vital to our future economic prosperity.

Boosting employment

Employment has been rising for the past two years, but there are still reasons for concern about the health of the labour market. It is very positive that the unemployment rate is soon likely to pass below the seven per cent level highlighted by the Bank of England, but for seven years before the recession it was typically around five per cent.

The TUC believes that the government's employment programmes are weakened by inadequate investment and calls for a substantial increase in spending on help for unemployed people. This would make it possible to introduce a job guarantee, such as the highly successful Future Jobs Fund which was abolished as part of the cuts announced in the summer of 2010.

Unfortunately current programmes, the Work Programme and the Youth Contract, are not performing well. The proportion of Work Programme participants getting jobs within 12 months of starting the programme peaked in April 2013, when 13.9 per cent of those referred in April 2012 had got jobs. This figure has slowly but steadily fallen and in September stood at 11.7 per cent.[21] The results for Employment and Support Allowance new claimants are disastrous: just 5.6 per cent of people referred in September 2012 had job outcomes a year later; the figures for other claimants of ESA and Incapacity Benefit are even worse.

[21] Commons Library Standard Note SN/EP.6340, *Work Programme*, Dec 2013, http://www.parliament.uk/briefing-papers/SN06340.pdf

The Work Programme's Invitation to Tender said that the DWP expected that providers would "significantly exceed"[22] a set of minimum performance levels. In 2012 - 13 providers were still falling short of this minimum target:

Work Programme: second contract year minimum performance standards and actual job outcomes

Group	Minimum Standard	Actual outcome
JSA 18 – 24	33.0%	31.7%
JSA 25+	27.5%	27.2%
ESA	16.5%	5.3%

The low proportion of ESA claimants getting jobs is particularly worrying, as the first report from the official evaluation of the Work Programme said that "the evidence to date" suggested that providers are engaging in "creaming and parking", providing more support to those who need it least, and "little or no" specialist support for those who need it most.[23]

It has been argued that the Work Programme's design has the advantage of saving public money, but its inadequate funding is in fact costing the taxpayer more, as low outcome rates mean that the significant social and economic costs of long-term unemployment continue to rise. The Work and Pensions Select Committee concluded that the Work Programme was insufficient to meet the needs of the most disadvantaged long-term unemployed people[24] and the evaluation of the Work Programme has seen providers complaining that insufficient funding meant they were unable "to provide the level of support they wanted". In particular, providers were reluctant "to make referrals to specialist provision, often on the grounds of cost." This was causing a "lack of 'substantive personalisation'". Given personalisation of services has been identified by evaluations of the New Deal and the Flexible New Deal as one of the most important factors in helping disadvantaged groups, this is a matter of significant concern.[25]

The Youth Contract has been even less successful than the Work Programme. While the Youth Contract is often compared to the Future Jobs Fund it is

[22] http://webarchive.nationalarchives.gov.uk/+/http://www.dwp.gov.uk/docs/work-prog-itt.pdf para. 3.18
[23] *Work Programme evaluation: Findings from the first phase of qualitative research on programme delivery,*
Newton et al, DWP Research Report 821, 2012, s. 18.5.
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/193323/rrep821.pdf
Some providers argued that the hardest-to-help should not be referred to them at all.
[24] http://www.publications.parliament.uk/pa/cm201314/cmselect/cmworpen/162/16202.htm
[25] *Work Programme Evaluation: procurement, supply chains and implementation of the commissioning model*, Lane et al, DWP Research Report 832, 2013,
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/197710/rrep832.pdf p. 47

rather smaller in scale (FJF was to cost £1 billion over two years, compared to £1 billion over three years) and a better comparison would be the New Deal for young people. The most widely publicised element of the Youth Contract is the job subsidy, which is meant to be offering 160,000 places with businesses taking on young people from the Work Programme receive a subsidy of up to £2,275. In real terms this is significantly less than was offered by the New Deal, where employers taking on young people working full-time received a subsidy of £60 a week for 26 weeks plus a training grant of £750 (totalling £2,310).

The evidence so far on the performance of the different elements of the Youth Contract is mainly negative. The latest figures for the wage subsidy show that, by November 2013, Wage Incentive payments had been made for just 10,030 individuals (leaving less than eighteen months to make up the 150,000 shortfall).[26] Early research into the impact of Mandatory Work Activity, which compared outcomes those who were and were not referred to the programme, found that "MWA had a small and transitory impact on benefit receipt, and no impact on employment".[27] The first figures for the wage incentive[28] are particularly disappointing, showing that in the year to May 2013 21,460 young people had started work supported by this scheme; what is more, whilst 7,810 people had started on the programme six months or more earlier, only 2,070 payments for jobs sustained for six months had been made – a failure rate of 73 per cent with only 2.9 per cent of the promised places having been completed.

These results are, for the most part, a sad contrast with those for the programmes abolished to make way for the Work Programme and the Youth Contract. As a BIS report has noted,[29] the New Deal for Young People was very thoroughly evaluated, especially in its early years, and these evaluations "found overall very positive results", with the New Deal increasing the likelihood of being in employment eighteen months after participating by 6-7% compared and with impacts on the likelihood of leaving benefit persisting for at least four years. The Future Jobs Fund, abolished in June 2010, delivered

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[26] *Youth Contract Official Statistics*, DWP, Feb 2014, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/283873/youth-contract-feb14.pdf

[27] *Early impacts of Mandatory Work Activity*, DWP, June 2012, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/222938/early_impacts_mwa.pdf

[28] *Youth Contract Wage Incentive Payments - Experimental Statistics*, DWP, July 2013, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/224573/Wage_Incentive_payment_adhoc_released.pdf and *Youth Contract Wage Incentive Job Starts – Management Information*, DWP, July 2013, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/224572/Wage_Incentive_job_starts_adhoc_released.pdf

[29] *Youth Unemployment: Review of Training for Young People with Low Qualifications,* BIS Research Paper 101, Feb 2013, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/70226/bis-13-608-youth-unemployment-review-of-training-for-young-people-with-low-qualifications.pdf

105,000 jobs in just 18 months;[30] 18 months after working in a FJF job, participants were eleven percentage points more likely to be in unsubsidised employment (this advantage was steady over the last 30 weeks of the evaluation period, suggesting that the positive impact was sustained after the 104 week point) despite the challenging economic circumstances of the time.

Tackling the UK's youth jobs crisis should be a top government priority, and investing in schemes that actually work is the most basic step that should be taken towards this end.

The TUC calls on the government to:

- **support a substantial increase in spending on active labour market policies;**
- **reintroduce the Jobs Guarantee programme for young people**

Raising incomes

As we have seen, the recent economic upturn has been marred by a living standards crisis that shows no sign of disappearing. Average earnings, as measured by the average weekly earnings figures, have grown at a slower rate than RPI inflation since 2009, the longest period of declining real earnings since the 1870s. This is a crisis of earnings, rather than inflation: this century, RPI has averaged three per cent; since the start of 2009, it has averaged 3.1 per cent. On the other hand, while average weekly earnings growth this century has averaged 3.1 per cent, the average for the period since January 2009 is 1.7 per cent.

The slowdown in earnings growth has translated into lower incomes. Recent work by the Office for National Statistics[31] has shown that there has been a sharp decline in average incomes since the start of the recession. If we look at the trend of the last third of a century, average household incomes more than doubled: between 1977 and 2011/12 median equivalised disposable incomes grew at an average rate of 2.2 per cent per year. After the recession this process reversed: between 2007/08 and 2011/12, median income did not just stop growing, it fell by 3.8 per cent.

Figures from the charts used in the ONS report reveal that the overwhelming reason for middle-income families' declining incomes is reduced earnings:

[30] *Young Person's Guarantee Official Statistics*, DWP-BIS, October 2011, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/222923/ypg_oct2011.pdf
[31] *Middle Income Households, 1977-2011/12,* DWP, Dec 2013, http://www.ons.gov.uk/ons/dcp171776_341133.pdf

Composition of gross income for the middle income quintile of non-retired households, £ p.a. (2011/12 prices)

Year	Income from employment	Private pension, annuity, investment and other income	Cash benefits
2007/08	*36,004*	*1,932*	*3,135*
2011/12	*30,740*	*1,837*	*4,577*
Change	*-5,264*	*-95*	*1,442*

The report also highlights that tax credits were have played an important role in offsetting this fall, accounting for "the largest absolute increase of any cash benefit received by the middle fifth of non-retired households, rising from £280 in 2007/08 to £610 in 2011/12. This is due to an increase in both the percentage of middle income households in receipt of the benefit element of tax credits (from 6.3% to 12.1%), and in the average amount of tax credits received." While in-work benefits have been subject to significant cuts over recent years, they remain an important part of household incomes.

In addition, a lower level of tax paid by middle income families has partly offset falling incomes before tax:

Direct and Indirect taxes paid by the middle income quintile of non-retired households, £ p.a. (2011/12 prices)

Year	Income tax	Employees' NI contributions	Council tax and local rates	VAT	Other indirect taxes
2007/08	*5,052*	*2,415*	*1,217*	*2,603*	*3,791*
2011/12	*3,607*	*2,061*	*1,114*	*2,473*	*3,538*
Change	*-1,445*	*-354*	*-103*	*-130*	*-253*

However, the report cautions against attributing this change to the higher personal tax allowance. It is more likely that as real pay has fallen, so has the amount of earned income households are required to pay tax on:

"Income tax is a progressive tax because as incomes rise, the proportion of a household's income paid in income tax rises. As a result, a fall in income, such as that which occurred after the economic downturn, will lead to a disproportionately large fall in income tax and so a fall in income tax as a percentage of income. Falling earnings for this group have also led to a decrease in average employees' National Insurance contributions."[32]

The TUC does not agree with the government that substantial cuts in the personal allowance are an effective way to target low and middle earners. IFS

[32] Op Cit. p. 13

analysis shows that it is those in higher income households who gain the most from a higher personal allowance, as they are most likely to comprise two adults each earning enough to benefit from the higher personal allowance level. In contrast, those earning too little to pay tax see no benefit at all, and the government's own evidence to the Low Pay Commission has noted that most NMW earners will see no gains from further personal allowance increases. Given the substantial cost of this policy the TUC believe that attempts to increase support for those on low incomes should be better targeted elsewhere.

Unions are especially concerned about the impact of the living standards crisis on the lowest paid workers. The Resolution Foundation has investigated[33] a number of different definitions of low pay, one of which is very similar to the definition of poverty used in the Child Poverty Act: two-thirds of gross hourly median pay among all employees. Using this definition, the proportion of workers in low-paid employment rose from 15 per cent in 1975 to 23 per cent in 1996 and has since been steady, standing at 21 per cent in April 2012. The number and proportion earning less than the Living Wage, however, has escalated from 3.4 million in 2009 to 4.8 million in 2012 (to 20 per cent from under 15 per cent).

A suite of measures are therefore needed to address the UK's ongoing cost of living squeeze, seeking to secure both fair pay and more generous support from in-work benefits.

The TUC has welcomed the Low Pay Commission's proposal to increase the NMW by three per cent, and hope that this is the first in a series of significant rises which can rapidly restore the NMW's lost real value. As our submissions to the Commission have made clear, we also believe that further progress could be made by strengthening minimum wage enforcement, including by the government guaranteeing arrears for NMW workers who are underpaid (so that payment is guaranteed even if it cannot be recovered from an employer) and increased use of naming and shaming powers when employers refuse to pay their staff the correct minimum wage rate. Greater efforts must also be made to enforce the payment of the NMW to apprentices; failure to do so is both and injustice and is damaging the apprenticeship brand, therefore deterring future apprentices from taking up a place.

But raising the NMW alone is not enough, particularly as we know that there are many employers who are currently paying at the agreed minimum rate who could afford to be far more generous without experiencing employment effects. The Business Secretary has asked the Low Pay Commission "to consider how the NMW may be able to rise faster than current conditions allow over the medium term"[34] and the TUC has emphasised in evidence to the LPC that when

[33] *Low Pay Britain*, Resolution Foundation, Sep 2013, http://www.resolutionfoundation.org/media/media/downloads/Low_Pay_Britain_2013.pdf

[34] "Cable announces plans to boost fairness for workers", BIS press release, 16 Sep 2013, https://www.gov.uk/government/news/cable-announces-plans-to-boost-fairness-for-workers

the NMW is set at the highest level that can be sustained, government tax revenues are increased and spending on tax credits and in-work benefits is reduced.[35] Research by the IPPR and the NIESR[36] has shown that four million workers would gain if the NMW were raised to the level of the Living Wage, but that labour demand would be reduced by 160,000. This suggests that 96 per cent of low-paid jobs would survive, but 160,000 lost jobs would be a serious price to pay for this improvement. A key task must therefore be to raise the wages paid by the majority of low-paying employers, whilst being sensitive to those who might reduce their employment level in response. Government procurement has a key role to play here, as by requiring all contractors to pay at least the Living Wage rate, and contracting in such a way as would make this possible, there is scope to ensure significant numbers of workers see their earnings rise.

For all low-paid industries one of the keys to raising wages is likely to be higher pay and improved productivity. The TUC would encourage the government to pilot new industrial pay bodies in a number of low-paid sectors with the aim of raising their minimum pay levels significantly above the national minimum wage. The method of achieving this outcome could include government help in ensuring that these sectors succeed in accessing investment and raising productivity, but the central focus should be on how better pay can be achieved. Therefore, these bodies should be charged with setting binding rates of above NMW pay, ensuring that as productivity and profitability gains are achieved they are shared fairly with the workforce. The TUC would welcome discussions with the government about how this might be achieved.

Another element of a campaign to raise the pay of those on lower and middle incomes would be to encourage collective bargaining. The union wage premium is worth 4 per cent in the private sector, 17 per cent in the public sector – substantially larger for women, thus helping to reduce gender inequality.[37] As David Metcalf has pointed out, collective bargaining reduces pay dispersion because unions' bargaining strategies tend to emphasise protection of the pay of the lowest earners and reliance on objective criteria for pay. He noted that, "if there were no unions the gender pay gap would be 2.6% wider and the race pay gap 1.4% bigger."[38] A 2007 study of 11 OECD countries in the period 1973 – 1998 found that higher union density was

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[35] *Low Pay Commission 2013*, TUC, Aug 2013, http://www.tuc.org.uk/sites/default/files/LPCsubmission2013.pdf

[36] *Beyond the Bottom Line*, IPPR/NIESR, Jan 2013, http://www.ippr.org/images/media/files/publication/2013/01/beyond-bottom-line_living-wage_Jan2013_10162.pdf

[37] *Trade Union Membership 2012*, BIS, May 2013, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/204169/bis-13-p77-trade-union-membership-2012.pdf

[38] *British Unions: resurgence or perdition?,* David Metcalf, Work Foundation 'Provocations' series no. 1, 2005, http://www.theworkfoundation.com/downloadpublication/report/68_68_british%20unions.pdf

associated with lower male earnings inequality.[39] More recently, the OECD has concluded that "higher union membership tends to be associated with lower income inequality."[40] It is time for the government to do more to recognise the importance role that collective bargaining can play in supporting fairer pay.

Of course the reality is that tackling scourge of low pay and falling real wages for those on middle incomes will require various approaches and the TUC believes that there is a risk of incoherence without a cross-Government strategic commitment. We are therefore supportive of calls to give the Low Pay Commission a wider role, providing advice on the key drivers of low pay and potential solutions.

But important though it is to raise pay, a strategy that stops there will not solve the living standards crisis. We noted above the evidence that benefits have played at least as strong a role as reduced tax obligations in ameliorating the impact of pay stagnation on middle-income Britons. For the lowest paid workers benefits are even more important.

As will be obvious from what we have said so far, the TUC believes in the importance of paid work. But there is likely to be a role for in-work benefits for some time to come, particularly for families with children. Many adults face unpaid caring commitments which constrain the number of hours of paid work that can fairly be expected of them, and there are others who can work full-time but who have significant family costs (for example where they are bringing up disabled children) that they cannot meet from their earnings. As cuts in social care reduce the availability of the services that make it possible to combine paid and unpaid work and more workers slip into low pay, it is likely that the number of people in this position will grow, not shrink; already, the association of poverty with worklessness is much weaker than it once was. In 1996/7, 35 per cent of individuals in poverty lived in a household where one of the adults had a paid job; by 2011/12, this had risen to 52 per cent.[41]

The assumption that action on low pay is an alternative to providing decent in-work benefits is mistaken. Measures to promote access to employment, to eliminate low pay and to guarantee income from in-work benefits are all needed. Indeed, without improvements in tax credits and other in-work benefits, the impact of increases in pay or reductions in income tax will be muted. Low-paid families with children cannot survive without help from tax credits, but these tax credits are tapered away as their earnings rise (when

[39] "Labor Market Institutions and Wage Inequality", W Koeniger, M Leonardi and L Nunziata, *Industrial and Labor Relations Review,* Vol. 60, No. 3 (April 2007), Cornell University, http://digitalcommons.ilr.cornell.edu/cgi/viewcontent.cgi?article=1282&context=ilrreview

[40] OECD 2012, "Inequality in labour income – What are its drivers and how can it be reduced?", *OECD Economics Department Policy Notes,* No. 8. January 2012, http://www.oecd.org/tax/public-finance/49417273.pdf

[41] Households Below Average Income statistics, DWP, June 2013, table 3.5ts, https://www.gov.uk/government/publications/first-release-households-below-average-income-hbai-statistics-june-2013 Poverty is here defined as living in a household with an income below 60 per cent of the equivalised median after housing costs

Universal Credit replaces existing benefits a low-income family will lose 65p for every £1 they gain from higher wages or personal allowances). To raise the incomes of low-paid families with children it is not enough to increase their wages or cut their taxes, it will also require higher tax credit (or UC) rates, or a significant reduction in the rate at which benefits are withdrawn.[42]

Unfortunately, government policy has been moving in the opposite direction and substantial reductions in the real values of Housing Benefit, working and child tax credit and child benefit have hit low-income working families hard: by the TUC's count, there have been 43 significant social security cuts, three quarters of which have hit working people. Some will impact particularly on low-paid workers, especially the increase in the tax credit taper rate from 39 per cent to 41 per cent, the cut in the childcare element from 80 to 70 per cent of eligible costs and the increase in the hours worked threshold for Working Tax Credit eligibility.[43]

Finally, there is one group whose incomes do not need further support: those on the very highest pay who have seen significant an ongoing rises to their incomes even during recent years of economic downturn and stagnation. Such high pay inequalities make no social or economic sense, and despite some positive moves from Government to introduce a binding forward facing vote on executive remuneration, little has actually changed. Budget 2014 provides a chance to indicate that the government is now prepared to change tack on executive remuneration, and to introduce action that will genuinely work to start to keep very top pay in check. These should include support for the EU bankers bonus cap and action to veto excessive bonus payments at state owned banks.

The TUC calls on government to:

- **guarantee arrears for NMW workers who are underpaid** (so that payment is **guaranteed even if it cannot be recovered from an employer);**
- **make increased use of naming and shaming powers when employers refuse to pay their staff the correct minimum wage rate;**
- **set out how the government plans to take advantage of the opportunities presented by the new directives to use public procurement arrangements to address income inequalities and to drive up living standards for example by requiring all public contractors to pay at least the living wage;**
- **introduce legislation which ensures that any contractor that has won a public contract fully complies with UK and EU employment law obligations, including the respect of collectively agreed terms and conditions of employment;**
- **announce that they will pilot new industrial pay bodies in a number of low-**

[42] This problem is studied in more detail in *Raising incomes for low-paid families*, TUC, Feb 2014, www.tuc.org.uk/sites/default/files/case%20studies%20HR%20analysis%206%202%2014.docx
[43] *Keeping Up With The Cuts,* TUC, Dec 2013, http://www.tuc.org.uk/keepingupwiththecuts

paid sectors with the aim of raising their minimum pay levels significantly above the national minimum wage;

- **restore Acas's duty to promote collective bargaining;**
- **give the Low Pay Commission a wider role, providing advice on the key drivers of low pay and potential solutions;**
- **desist from introducing further poorly targeted cuts in the income tax personal allowance, and instead commit to introduce either higher tax credit or Universal Credit rates or a reduction in the rate at which benefits are withdrawn from low paid workers;**
- **support the EU's move to cap bankers' bonus payments and set an example by vetoing excessive payments at the majority state-owned and still loss making RBS.**

Protecting public services

Prolonged austerity is having a major negative impact on the quality and capacity of public services. For example, in the NHS, the combination of £20bn efficiency savings and real terms funding cuts[44] has equated to a four per cent cut in the budgets of hospitals and community health services every year from 2010 to 2014[45], with income falling far behind increased demand.

These savings have largely been met through pay freezes[46], staff cuts[47] and the rationing of services, with the Public Accounts Committee concluding that this was having a "damaging impact on the quality and safety of care".[48] The Commons Health Committee predicts that the current drive for Quality, Innovation, Productivity and Prevention (QIPP) efficiencies in the NHS will need to be sustained beyond their 2015 target, yet at the same time the ability to find savings is diminishing.[49]

At the same time, the financial position of a large number of NHS Trusts and Foundation Trusts is deteriorating. In their Quarterly Monitoring Report 2014, the Kings Fund found that there was a growing pessimism about the overall financial strength of the wider health and social care system, with over a third of finance directors "very pessimistic" about their financial position over the next year, the highest figure since surveys began, with one in five trusts operating a deficit by the end of the financial year.[50]

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44 http://www.labour.org.uk/uploads/449c0427-01d7-92e4-0906-87dc4b12d345.pdf
45 http://www.theguardian.com/commentisfree/2013/sep/20/nhs-funding-squeeze
46 http://www.publications.parliament.uk/pa/cm201314/cmselect/cmhealth/793/793.pdf
47 http://www.telegraph.co.uk/health/nhs/10610648/Scale-of-NHS-financial-crisis-revealed-amid-looming-staff-cuts.html
48 http://www.publications.parliament.uk/pa/cm201213/cmselect/cmpubacc/865/865.pdf
49 http://www.publications.parliament.uk/pa/cm201314/cmselect/cmhealth/793/793.pdf
50 How is the Health and Social Care System Performing? Quarterly Monitoring Report, January 2014, Kings Fund

It is those who have the very least who are hit hardest by these cuts: TUC research has consistently shown that those on the lowest incomes are affected most by the deterioration in public service quality and coverage. Women are also disproportionately affected: for example, a TUC report, 'The Gender Impact of the Cuts', published at the start of the austerity programme, showed that lone parents, ninety per cent of whom are female, would be the most deeply affected social group; single female pensioners were second most deeply affected.[51]

While transformative change is required to achieve greater integration of services and the delivery of long-term efficiency gains, the government's continued pretence that NHS funding is being protected masks a failure to acknowledge a growing financial crisis within the health and social care system that could pose serious problems in the very near future and requires action in the short-term.

The situation in other areas of public service where budgets have not been 'protected' is even more serious. Analysis by the Institute for Fiscal Studies (IFS) indicates that departmental spending looks set to fall by 18.6 per cent in real terms between 2010–11 and 2017–18 and, if the NHS, schools and aid spending are protected from cuts through to 2017–18, then 'unprotected' departments will face budget cuts averaging 33.2 per cent.[52] According to the Office for Budget Responsibility, the spending measures outlined in the Chancellor's Autumn Statement of 2013 will result in government spending on public services falling "to its smallest share of national income at least since 1948"[53].

Local authorities have borne the brunt of the government's spending cuts, with severe impacts on services and the local government workforce that delivers them. The 2010 Spending Review set out reductions of 28 per cent in local government funding in real terms by 2015, with further cuts anticipated well beyond the current spending review period. This financial position will have a significant impact on provision. A survey of 81 local authorities by The Guardian found that almost a half are cutting funding to adult social care, over 50 per cent will be cutting children's services and over two thirds were slashing spending on culture and leisure services[54]. Research also shows that spending cuts will disproportionately impact on lower income groups within local communities[55] and the Local Government Association has warned that local authorities could be facing a 29 per cent shortfall[56] between revenue and

[51] http://www.tuc.org.uk/equality-issues/gender-equality/cuts-will-reduce-womens-income-and-widen-gender-pay-gap-says-tuc
[52] http://www.ifs.org.uk/publications/6562
[53] http://cdn.budgetresponsibility.independent.gov.uk/Economic-and-fiscal-outlook-December-2013.pdf
[54] http://www.theguardian.com/society/2013/mar/25/council-cuts-local-government-knees
[55] http://www.radstats.org.uk/no103/HortonReed103.pdf
[56] http://www.lgcplus.com/briefings/corporate-core/finance/funding-crisis-within-a-decade-warns-lga/5046353.article

spending by the end of the decade. The Public Accounts Committee has stated that “there is a risk that the worst-affected councils will be unable to meet their statutory obligations, and that serious questions will arise about the viability of some councils.”[57]

Moreover, cuts to local government have disproportionately impacted on the poorest areas, with councils in the 10 most deprived areas of England facing cuts averaging 25.3% in the financial years 2010-11 to 2015-16, compared with 2.54% in the 10 least deprived areas.[58]

At a time when local authorities and other government agencies have demonstrated the leading role that public services play in supporting communities affected by floods and other emergency situations, the government should recognise that far from acting as a drag on the economy, public services play a dynamic role in supporting communities and local economies. Further cuts are unlikely to be sustainable without significant impacts on service delivery and quality.

The TUC calls on government to:

- **reduce the contribution of spending cuts to deficit reduction, in order to provide a sustainable funding framework across all departments;**
- **review the pace and scope of NHS efficiency targets in order to address serious short to medium-term funding issues across the health service;**
- **design a revised funding formula for local government that better reflects need and demand for services, thereby addressing the disproportionate impacts of cuts on the most deprived areas.**

Promoting collaboration not competition

The government continues to intensify market competition within public services, from the NHS to the criminal justice system, despite the absence of evidence of improved quality or value for money resulting from outsourcing or privatisation. But the creation of public service markets has led to increased bureaucracy and cost. From Free Schools to rail franchising, marketisation has led to increased inefficiency, with millions squandered on wasteful competition that provides little in the way of choice or value for money.

Research from Transport for Quality of Life[59] calculates that privatisation has added an extra £1bn a year to the cost of running our railways. NHS administration costs doubled to around 12 per cent following quasi-market reforms of the early 90s and, while no data exists to quantify the costs of managing today’s NHS market, a look at the USA shows that the introduction

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[57] http://www.publications.parliament.uk/pa/cm201314/cmselect/cmpubacc/134/134.pdf
[58] http://www.theguardian.com/society/2014/jan/30/local-government-cuts-poorest-areas
[59] http://www.transportforqualityoflife.com/u/files/120630_Rebuilding_Rail_Final_Report_print_version.pdf

of for-profit provision has increased administration costs by 30 per cent[60]. Evidence collected by Children England shows that a recent procurement exercise for children's centres in one top tier local authority incurred administrative costs of around £1m, shared between the local authority and just four of the children's charities bidding for the contract, more than 20 per cent of the contract value.

The TUC believes that the public sector is best placed to deliver services according to need, free at the point of use, for public good rather than for profit and that deliver best value for money for the service user and taxpayer. There is growing evidence that the in-sourcing of public services has led to greater flexibility, service quality, integration and value for money[61].

The fragmentation of services resulting from marketisation is also actively preventing the integration of services that is the stated aim of public sector reformers across the political spectrum. Sir Roy McNulty's report into value for money in the UK rail industry found that the fragmentation of rail following privatisation led to a situation where "multiple industry players, together with misaligned incentives ... has made it difficult to secure co-operative effort at operational interfaces, or active industry engagement in cross-industry activities which need to be undertaken for the common good".[62] The danger of this situation emerging in our health service has been recognised by Sir David Nicholson, the outgoing Chief Executive of the NHS, who has stated that private-sector style competition and fragmentation in the NHS is harming efforts to improve patient care[63], a concern echoed recently by the Commons Health Committee[64].

When services are outsourced, the government also needs to do more to protect the interests of the citizen and taxpayer. The TUC advocates a set of rights that seek to address what the National Audit Office have described as "limited transparency" over the rewards and performance of public service contractors and to promote greater "public reporting and openness to public scrutiny".[65]

For far too long, our public services have been outsourced to private contractors under the veil of 'commercial confidentiality', with little information on why services have been tendered out, what criteria have been used to award contracts, how the quality of service is being measured and maintained, what profits are being made and what tax is being paid by those that have taken over large parts of our public services.

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[60] http://www.whitehouse.gov/administration/eop/cea/TheEconomicCaseforHealthCareReform
[61] Insourcing Update, APSE, June 2011
[62] Realising the potential of GB Rail, McNulty, May 2011
[63] http://www.independent.co.uk/life-style/health-and-families/health-news/competition-in-nhs-is-harming-efforts-to-improve-patient-care-says-outgoing-chief-sir-david-nicholson-8839571.html?origin=internalSearch
[64] http://www.publications.parliament.uk/pa/cm201314/cmselect/cmhealth/793/79302.htm
[65] Memorandum on the role of major contractors in the delivery of public services, NAO, 2013

As such the government should introduce a new set of rights and powers, applicable across the public sector, which might include:

- performance and financial data for contractors made publicly available, including open book accounting on all public service contracts and Freedom of Information extended to all providers of public services; and
- application of the same transparency and equalities requirements to private and third sector service providers as those required of the public sector, including pay transparency and the public sector equality duty.

The TUC calls on government to:

- **apply the same transparency and equalities requirements to all providers of public services, both within the public, voluntary and private sector, including the use of open book accounting on all public service contracts and the extension of Freedom of Information to all contractors in recent of public funds.**

Public sector employment

High quality and dynamic public services rely on an empowered and motivated workforce. Public service workers are highly committed to the public service ethos, but morale is at rock bottom following years of cuts, attacks on pay and pensions and endless top down restructuring. The TUC believes that a new focus on decent public sector jobs is needed to empower employees to deliver the transformational change our public services need.

The public sector wage freeze and pay cap has had a hugely detrimental impact on public service workers' living standards. Taking the local government workforce as an example, staff have suffered three years of zero-percent pay increases from 2010, with the lowest paid not even getting the £250 promised by the Chancellor, followed by a one per cent pay cap in 2013. When increased pensions contributions are also taken into account, local government workers have seen their pay cut in real terms by 18 per cent since 2010. That equates to almost £2,000 per year for the lowest paid.[66]

As a result of this pay policy, the gap between the lowest paid local government workers and the National Minimum Wage has virtually disappeared. Incomes Data Services report that the lowest point on the local government pay scale is now just 11p above the NMW, leaving a staggering 510,000 council workers paid less than the Living Wage[67]. Most are women in part-time jobs.

Public sector pay restraint is also beginning to impact on recruitment and retention. The IFS claim that pay projections set out by the OBR in the Autumn Statement suggest that relative to the private sector public sector pay

[66] http://www.gmb.org.uk/newsroom/pay-claim-for-council-workers
[67] http://union-news.co.uk/2013/10/unions-launch-campaign-raise-wages-half-million-local-government-workers/

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will fall by eight percentage points between 2012/13 and 2018/19. When a similar low level was last seen in the early 2000s, parts of the public sector had significant difficulties recruiting and retaining staff, a trend that on current forecasts looks set to be repeated.[68] Indeed, there is already evidence to suggest that parts of the public sector are having problems recruiting specialist staff, with the Met Office, DEFRA, Highways Agency, MOD and Nuclear Decommissioning Authority all reporting difficulties in attracting and retaining specialists.[69]

The TUC calls on government to:

- **lift the public sector pay cap in order to address the falling living standards of public sector workers and boost recruitment and retention;**
- **intensify its promotion of the Living Wage and commit to immediate payment of the Living Wage across all central government departments and contractors.**

Fair taxation

A fairer approach to deficit reduction needs to include a greater focus on tax. At the moment, the government is even failing on its own limited ambition that 20 per cent of its programme of fiscal consolidation is achieved through increases in taxation. What's more, those savings that have been achieved have often been at the expense of those on the lowest incomes, for example through higher rates of VAT.

If those with the broadest shoulders are to make a fair contribution to getting our public finances back into shape significant action is needed to reduce tax avoidance, an area where the TUC has campaigned for some time. The Finance Act 2013 introduced a General Anti-Avoidance Rule (GAAR) into UK tax law. But while this should have been a cause for celebration, deficiencies in the new rule mean that our campaign against tax avoidance must continue.

The GAAR introduced last year is too narrow in its definition of what constitutes abuse, includes inadequate penalties for those using schemes to which the rule might be applied and creates unnecessary uncertainty. The vast majority of tax abuse by large and multinational companies is completely outside the scope of the rule. Transfer mispricing, the use of tax havens, putting intellectual property offshore solely for tax reasons and making use of loan arrangements to strip profit from the UK are just some of the activities commonly used by multinational companies to abuse the UK tax system that have been ruled to be beyond the scope of the rule.

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[68] http://www.publicfinance.co.uk/news/2013/12/public-sector-pay-squeeze-could-harm-recruitment-ifs-warns/
[69] IDS Pay and Benefits in Public Services 2013

There is also a need to introduce measures to raise tax revenues from those who can most afford to pay. In particular we believe that aligning the capital gains tax (CGT) rate that a person pays with their top rate of income tax, as Lord Nigel Lawson did in the 1980s, substantially reduces the incentive for people to transform income into capital gains for tax purposes. At present the CGT rate is lower at both the basic and higher rate (18 per cent and 28 per cent). Raising the lower capital gains rate by 2 per cent up to 20 per cent would raise only £10 million in 2014/15. But the higher capital gains rate is much lower than the higher statutory income tax rate of 40 per cent, and top statutory income tax rate of 45 per cent. Analysis undertaken by IPPR has shown that raising the higher capital gains rate by 12 percentage points to 40 per cent so that it aligns with the higher income tax rate would raise £960 million.

The TUC is also a strong supporter of the campaign for a Financial Transactions Tax. The UK already has a unilateral FTT in the form of stamp duty on share transactions (0.5%, raising about £3 billion a year), and the TUC has previously advocated a 0.005% tax on sterling currency transactions which would be a useful contribution to defending sterling from speculation as well as raising a further £3 billion annually). However, much more could be raised by taxing other financial transactions such as derivatives. The tax would fall predominantly on hedge funds and private equity, so that the costs falling on ordinary people would be limited.

Another significant reform would be to introduce a recurrent tax on net wealth. A net wealth tax, levied at the household level, would be a tax applied to all worldwide assets, following models already in place in Frances, Norway and Switzerland. IPPR has estimated the effect of introducing a net wealth tax at the household level of one per cent on all non-pension assets greater than a threshold of £500,000, suggesting potential for this measure to raise roughly £6.9 billion a year.

Progressive taxation is both socially just and economically efficient. By focusing future tax rises on the richest in society – who are most likely to save additional income – rather than on poorer people and those on middle incomes – who are most likely to spend – the government would both do the right thing and provide a boost to demand in the economy.

The TUC calls on government to:

- **introduce a General Anti-Tax Avoidance Principle to tackle tax avoidance, not just tax abuse;**
- **align the capital gains tax rate that a person pays with their top rate of income tax;**
- **introduce a financial transactions tax;**
- **introduce a new wealth tax.**

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Policy Recommendations

Summary of recommendations

The TUC calls on the government, in Budget 2014, to:

Boosting Investment

- reinstate a far higher proportion of recent capital spending cuts than are currently planned;
- support locally-led investment and regeneration models to maximise the regional benefits of HS2;
- increase the scope of the UK Guarantees scheme to match the scale of the Help to Buy initiative;
- reverse planned corporation tax reductions (with the rate set to fall from its current 22% to 20% by April 2015), reinvesting the money in capital allowances.

Housing

- limit the support available under Help to Buy to first-time buyers;
- protect the DCLG budget so that more help can be given to combat the housing crisis;
- maintain financial support for local government home-building and lift the borrowing caps that apply local authorities.

Green Economy

- signal the government's intention to commit to a full scale carbon sequestration programme for power and industry, focussed on CCS pipeline and storage infrastructure in key industrial regions;
- reduce the interest rate payable on Green Deal loans, providing a new role for the Green Investment Bank following the example of the KfW bank in Germany.

Corporate Governance Reform

- Recognise the inadequacies of the UK's reliance on shareholders to hold Britain's boardrooms to account, and place restrictions on the powers of short-term shareholders to influence significant corporate decisions. This should involve moves to:
  - reframe directors' duties to make directors' primary duty the promotion of the long-term success of the company, rather than prioritising shareholders' interests as at present;
  - restrict shareholders' corporate governance rights (including voting rights)

to those who have held shares for two years or longer.

Banking Reform

- widen the remit of the British Business Bank to enable it to focus lending on high-growth small businesses and infrastructure projects;
- provide the British Business Bank with an increased capital base and with the power to borrow from the capital markets;
- increase the capitalisation of the Green Investment Bank allowing it to issue green bonds;
- expand its remit to include community energy projects, home energy efficiency schemes and significant major infrastructure investments;
- develop proposals to establish a network of regional development banks;

Active Government

- commit to ensure there is at least one trade union representative on each of its industrial councils;
- commit to increase expenditure in support of supply chains, including the Advanced Manufacturing Supply Chain Initiative;
- Undertake a major study of where the UK could export to China;
- Significantly increase the funding of the Technology Strategy Board;
- Re-examine student fees for overseas students, with the view to make the UK one of the best destinations in the world for attracting Chinese students;
- give a stronger role to unions and employers in the negotiations of the TTIP;
- urgently reinstate levy support for existing CHP power plants;
- freeze the Carbon Price Floor from April 2014 and consult with unions and industry on its reduction through to 2020-21;
- provide energy intensive industries with relief from the Renewables Obligation;
- widen the scope of its compensation package to include sectors and businesses that do not qualify under the EU Emissions Trading Scheme and develop a similar support scheme for gas-intensive heavy industry;
- consult with industry and trade unions on extending the duration of the package in line with the decade-long periods of support provided by our main European competitors;
- ensure that the new EU procurement directives are introduced in such a way as to maximise opportunities for contracting authorities to boost jobs, skills, equality and sustainability through their purchasing power;

Science Policy

- commit the UK to reaching the Europe 2020 target of three per cent of GDP

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spent on R&D in the year 2020, setting out gradual targets for increases in R&D spending for each year between now and then;

- urgently reconsider the scale of the forthcoming cuts to the adult and youth skills budgets;

Skills for growth

- establish some form of training tax relief for adult learners, focusing in particular on those who currently have to take out loans to pay for the full cost of advanced vocational training;
- introduce practical measures to allow employers to reimburse young people for necessary expenses (e.g. transport, lunch etc.) when participating on a traineeship without this affecting benefit entitlement
- introduce a new “careers guidance entitlement” for all school pupils giving them access to professional, independent, face-to-face careers guidance in Year 8 and once again in Year 10;

Supporting employees voice

- remove the ten per cent voting threshold which hampers the effectiveness of the information and consultation regulations;
- consult on proposals to introduce a UK system of worker board level representation;

Responding to climate change

- invest an additional £500m annually on flood defences;
- permanently cancel plans to cut 1,700 Environment Agency staff;
- create a single agency responsible for flooding;

A fair recovery

- support a substantial increase in spending on active labour market policies;
- reintroduce the Jobs Guarantee programme for young people;

Raising incomes

- guarantee arrears for NMW workers who are underpaid (so that payment is guaranteed even if it cannot be recovered from an employer);
- make increased use of naming and shaming powers when employers refuse to pay their staff the correct minimum wage rate;
- set out how the government plans to take advantage of the opportunities presented by the new directives to use public procurement arrangements to address income inequalities and to drive up living standards for example by requiring all public contractors to pay at least the living wage;
- introduce legislation which ensures that any contractor that has won a public contract fully complies with UK and EU employment law obligations, including the respect of collectively agreed terms and conditions of

employment;

- announce that they will pilot new industrial pay bodies in a number of low-paid sectors with the aim of raising their minimum pay levels significantly above the national minimum wage. Government could help ensure that these sectors succeed in accessing investment and raising productivity, but the central focus should be on how better pay can be achieved, and the bodies should set binding rates of pay;
- restore Acas's duty to promote collective bargaining;
- give the Low Pay Commission a wider role, providing advice on the key drivers of low pay and potential solutions;
- desist from introducing further poorly targeted cuts in the income tax personal allowance, and instead commit to introduce either higher tax credit or Universal Credit rates or a reduction in the rate at which benefits are withdrawn from low paid workers;

Protecting public services

- reduce the contribution of spending cuts to deficit reduction, in order to provide a sustainable funding framework across all departments;
- review the pace and scope of NHS efficiency targets in order to address serious short to medium-term funding issues across the health service;
- design a revised funding formula for local government that better reflects need and demand for services, thereby addressing disproportionate impacts of cuts on the most deprived areas;
- apply the same transparency and equalities requirements to all providers of public services, both within the public, voluntary and private sector, including the use of open book accounting on all public service contracts and the extension of Freedom of Information to all contractors in recent of public funds;
- lift the public sector pay cap in order to address the falling living standards of public sector workers and boost recruitment and retention;
- intensify its promotion of the Living Wage and commit to immediate payment of the Living Wage across all central government departments and contractors;

Fair taxation

- introduce a General Anti-Tax Avoidance Principle to tackle tax avoidance, not just tax abuse;
- align the capital gains tax rate that a person pays with their top rate of income tax;
- introduce a financial transactions tax;
- introduce a new wealth tax.

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