

Where Is The Money Coming From?

An audit of Conservative Party manifesto commitments

April 2015

Pwh 1439

“And what I’ve learnt doing this job is that making spending commitments is the easiest thing in the world. Spending commitments are superficially attractive, they get ready applause from lobby groups, they get you headlines. But unfunded spending commitments are made with borrowed money and the price is paid by future taxpayers. Add all the spending commitments up and you get an unaffordable bill for Britain that threatens our economy.”

*George Osborne,
5 January 2015,
Conservative Party Press Conference*

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The process for this costing has been as follows:

- We examined the claims made by the Conservative Party in their manifesto published on 14 April 2015.
- We used official and Conservative Party sources for the costs of these claims, and for the measures which have been announced to pay for them.
- We found that the Conservative Party have made £25 billion of unfunded commitments.

We would be pleased to receive feedback on any aspect of our analysis or the presentation of analysis. Questions on how the Conservatives intend to find the money for any of their claims should be sent to the office of George Osborne.

1. Executive Summary

On Monday the Labour Party published its manifesto. They made clear that every commitment is paid for with no additional borrowing and suggested that political parties should submit their manifestoes to independent auditing by the Office for Budget Responsibility.

On Tuesday the Conservative Party again rejected this call as they published their own manifesto.

But they cannot avoid scrutiny. Their plans must and will be examined, which is where this document comes in.

It looks at the detail of the Conservative manifesto promises, looking at the cost of the claims they have made and whether any revenue has been identified to pay for them.

This analysis reveals that David Cameron and George Osborne have made almost £25 billion pounds of spending commitments without being able to identify where the money is coming from.

£25 billion is the equivalent of £1,439 a year for every working household in Britain.

As this document shows, this is the price working families will pay under the Tories for panicky promises made in the middle of a desperate Conservative campaign.

The conclusion is that Conservative Party clearly wants to avoid the truth that scrutiny would bring. While Labour's manifesto, published earlier this week, is fully funded, the Conservatives are making desperate promises. Their track record reveals who will pay the price. Since 2010 they have hit working people hard - putting up VAT and cutting tax credits - while millionaires have been given a tax break. They have done it before. They will do it again.

2. Conservative Party Manifesto Announcements Audited

Introduction

2.1 This chapter:

- Looks in detail at policies included in the Conservative manifesto which the Party has not explained how they will fund.
- Costs these policies based on official sources and comments made by the Conservative Party.

NHS claim: £8 billion

2.2 The Conservative Party are making empty promises about NHS spending. Page 37 of the Conservative Party 2015 manifesto claims that the party would: *“spend at least an additional £8 billion by 2020 over and above inflation to fund and support the NHS’s own action plan for the next five years”*.

2.3 Table 2.1 sets out the additional costs on the basis that this is and fully in place by 2019-20.

Table 2.1: Central forecast costings for Conservative Party NHS spending plans

	£ billion
	Forecast
NHS Total Departmental Expenditure Limit (assumed to grow in line with inflation)	126
NHS Total Departmental Expenditure Limit (under Conservative Party plans)	134
Additional expenditure under Conservative Party plans	8

2.4 Based on public statements made by the Chancellor the Exchequer, and the Financial Secretary to the Treasury, we have been unable to ascertain a revenue source to fund this increase in the NHS’s Departmental Expenditure Limit.

Box 2.1: Transcript of the Chancellor of the Exchequer

Andrew Marr: As Tory election strategist you have just blown a huge hole in your own strategy by making an £8bn unfunded pledge on the NHS. Exactly what you said you were not going to do. Why?

George Osborne: I don't accept that at all. We have a balanced plan to grow our economy. To make savings in government including in welfare, to fund our NHS each and every year, to give a tax cut to working people so that we make work pay, we support our public services and we have an economic policy that supports our entire country.

Andrew Marr: You've just found an extra £8bn, all I'm asking is where does it come from, no higher taxes, extra public spending cuts, where?

George Osborne: Well it is part of our balanced plan and if you look over the last 5 years...

Andrew Marr: That is not really an answer...

George Osborne, Andrew Marr The Andrew Marr Show, Sunday, 12 April 2015

Box 2.2: Transcript of the Financial Secretary to the Treasury

Andrew Neil: In January David Cameron said 'The real risk to the NHS is the risk of unfunded spending commitments'. So why have you just made an £8 billion unfunded spending commitment to the NHS?

David Gauke: Well the reality is with the NHS is our record speaks for itself...

Andrew Neil: All right but let's park that. How will you finance an extra £8 billion a year by 2020.

David Gauke: Well what we're saying is expenditure on the NHS will be a priority for the Conservative government as it has been a priority for the government for the last five years...

Andrew Neil: But how will you fund it?

David Gauke: And with a strong economy we will ensure that when it comes to the spending review we will make sure the resources are there to fulfil Simon Stevens' plan for the NHS.

Andrew Neil: So you've promised an extra £8 billion for the NHS. It's all just going to be magically come out from economic growth – you can't give me any example of where the money will come from...

David Gauke: But Andrew, look at our record. In the last five years we have increased the personal allowance very dramatically. In the last five years we've increased spending on the NHS.

David Gauke, Andrew Neil, Sunday Politics, Sunday, 12 April 2015

- 2.5 The cost of this commitment is £8 billion. The Conservative Party have not announced any funding to pay for this.

Rail Fares claim: £360 million

- 2.6 The Conservative Party manifesto claims that a Conservative Government will “keep commuter rail fares frozen in real terms for the whole of the next Parliament.” The manifesto goes on to state that regulated rail fares will only be able to rise by Retail Price Inflation. This section examines the unfunded cost of this measure.
- 2.7 In Spending Review 2010 the Conservative-led Government announced that it would increase the cap on regulated rail fares from RPI +1 per cent to an annual average increase of RPI +3 per cent from January 2012, which would mean a real terms increase in fares of 10 per cent over four years. However in November 2011 the Chancellor of the Exchequer announced a cap of RPI +1 per cent for 2012, at a cost of £290 million. Autumn Statements 2013 and 2014 capped regulated fares at RPI for 2014 and 2015, again at a cost to the Exchequer. This suggests that a five year real terms freeze on rail fares will come at a considerable cost.
- 2.8 In estimating the cost of this policy we note that in August 2014 the Secretary of State for Transport, Patrick McLoughlin, said that a similar proposal “would cost £1.8 billion over the lifetime of the next Parliament”. We further note that Financial Secretary to the Treasury David Gauke has said that the cost of the measure was in the “hundreds of millions by the end of the Parliament” (Box 2.3).
- 2.9 Ministers have failed to provide further details of their policy costing. Until further detail is provided we have relied on public statements made by Conservative ministers to evaluate this policy.

Box 2.3: Statements by Conservative Ministers on rail fares

No policy costing of the rail freeze policy has been provided to us by the Conservative Party. We have instead based our evaluation of the policy on public statements made by Conservative Ministers, transcripts of which can be found below.

Transport Secretary Patrick McLoughlin said on the cost of a rail freeze policy: “It would cost £1.8 billion over the lifetime of the next parliament and be paid for by more borrowing and higher taxes.”

Press Association, 1 August, 2014

Kirsty Wark: Good evening. Well answer Chris' question please. How much is it going to cost?

David Gauke: Well it partly depends on what's going to happen with train services and so on, so it's not possible to put a precise number on it. It's also worth pointing out that there's no particular assumption that train fares will increase – RPI plus 1 – that's what's happened in the past. But the costs are in the low hundreds of millions by the end of the parliament.

Newsnight, Thursday 9 April 2015

- 2.10 The cost of this commitment is an average of £360 million a year, or £1.8 billion across the Parliament as a whole. The Conservative Party have not announced any funds to pay for this.

Volunteering claim: £1.2 billion

- 2.11 The Conservative Party have set out plans which permit public sector workers to have three days' paid leave to take part in volunteering activity. Page 45 of the Conservative Party 2015 manifesto sets out that the party would: *"give those who work for a big company and the public sector a new workplace entitlement to Volunteering Leave for three days a year, on full pay."*
- 2.12 Official costings for this policy have not been provided by the Conservative Party. For our central forecast we have therefore taken a number of cautious assumptions in costing this policy:
- We have assumed 50 per cent take-up of this scheme among the public sector workforce
 - We have used public sector pay bill forecasts based on methodology and assumptions set out by the Office for Budget Responsibility in General Government Employment Growth Forecasts 2010, and Office for National Statistics estimates in the 2013 National Accounts Blue Book.
 - The positions are backfilled while the scheme is in place so that there is no net impact on public services.
- 2.13 On this basis, Table 2.2 sets out the profile of additional costs:

Table 2.2: Central forecast costings for Conservative Party volunteering policy plans

	£ billion
	Forecast
Cost of Conservative Party volunteering policy assuming 50% take up	1.2

- 2.14 Based on public statements made by the Minister for the Cabinet Office and the Secretary of State for Communities and Local Government, we have been unable to ascertain a revenue source to fund this increase in expenditure. See box 2.4.

Box 2.4: Transcript of the Secretary of State for Communities and Local Government

Justin Webb: Have you thought about who is going to pay?

Eric Pickles: Of course we have thought about who is going to pay. This election is about building a better future for our children and our grandchildren, and obviously the foundation of that is economic security, but you've got to think about what kind of society you are going to build at the same time. And this seems to be a very sensible, very modest proposal. It is no different from people organising with their employers ... employee arrangement with regard to their annual leave. And it does seem to be me that we are having to scrape the barrel to try and find objections to what will actually enhance most businesses.

Justin Webb: Are you seriously suggesting, for instance, in hospitals that it would be acceptable simply for those hospitals to be asked to find from their own fund extra staff to fill in these extra days and that that is somehow is a minor objection in these troubled times?

Eric Pickles: Well of course nurses do go on holiday, they are entitled to annual leave ...

Eric Pickles, Justin Webb, BBC Today programme, Friday, 10th April 2015

- 2.15 The cost of this commitment is £1.2 billion. The Conservative Party have not announced any funding to pay for this.

Personal allowance claim: £6.5 billion

- 2.16 The Conservative party manifesto, published on 14 April 2015, makes an unfunded claim that they will increase the personal allowance to £12,500.
- 2.17 Page seven of the Conservative party 2015 manifesto claims that they will “*increase the tax-free personal allowance to £12,500*”. This repeats the announcement made by David Cameron in his speech at the Conservative party conference on 1 October 2014: “*I can tell you now that a future Conservative Government will raise the tax-free personal allowance from £10,500 to £12,500*”.
- 2.18 David Cameron has also said that the personal allowance increase could come in earlier in the next Parliament. He told the *Daily Telegraph* on 7 April 2015 that he wanted to make the changes as soon as possible. This would increase the cost of the policy significantly.
- 2.19 The cost of this commitment was originally said by the Conservatives to be £5.6 billion. The @ToryTreasury Twitter account said on the day of Mr Cameron's speech that “*Basic rate to £12,500 costs £5.6bn. Higher rate to £50k costs £1.6bn. Total cost £7.2bn.*” However, these calculations assume that the increase in the personal allowance is only introduced in 2020-21, and would not be in place for a single full year of the next Parliament.
- 2.20 Independent experts at the House of Commons Library have calculated the cost of bringing in the increase in the personal allowance in 2019-20, the final year of the next Parliament. They also took into account of the increase in the personal allowance which was announced, and funded, in Budget 2015.

- 2.21 The cost of this commitment is £6.5 billion. The Conservative Party have not announced any funding to pay for this.

Higher rate tax claim: £3.9 billion

- 2.22 The Conservative Manifesto makes a second unfunded tax commitment: an increase in the higher rate threshold to £50,000. This section examines the unfunded cost of both measures. The Conservative party have previously described unfunded tax cuts as a “tax con”.
- 2.23 Page seven of the Conservative party manifesto claims that they will “*Increase... the 40p Income Tax threshold to £50,000*”. This repeats the announcement made by David Cameron in his speech at the Conservative party conference on 1 October 2014: “*With a Conservative government, we will raise the threshold at which people pay the 40p rate. It’s currently £41,900...in the next Parliament we will raise it to £50,000.*”
- 2.24 The cost of this commitment was originally said by the Conservatives to be £1.6 billion. The @ToryTreasury twitter account said on the day of Mr Cameron’s speech that “*Basic rate to £12,500 costs £5.6bn. Higher rate to £50k costs £1.6bn. Total cost £7.2bn.*” However, these calculations assume that the increase in the higher rate threshold is only introduced in 2020-21, and would not be in place for a single full year of the next Parliament.
- 2.25 Independent experts at the House of Commons Library have calculated the cost of bringing in the increase in the higher rate threshold in 2019-20, the final year of the next Parliament. They also took into account of the increase in the higher rate allowance which was announced, and funded, in Budget 2015.
- 2.26 The cost of this claim is £3.9 billion. The Conservative Party have not announced any funding to pay for this.

Housing claim: £4.4 billion

- 2.27 The Conservative Party manifesto claims that a Conservative Government will “*extend the Right to Buy to tenants in Housing Associations*”. It adds that a future Conservative Government will “*fund the replacement of properties sold under the extended Right to Buy by requiring local authorities to manage their housing assets more efficiently, with the most expensive properties sold off and replaced as they fall vacant.*” In addition, the manifesto claims the Party will “*create a Brownfield Fund to unlock homes on brownfield land for additional housing.*” This section examines the unfunded cost of this measure.
- 2.28 In announcing the policy the Conservative Party has said that it will be paid for by requiring councils to sell off their most expensive properties when they fall vacant, and that this will raise £4.5 billion a year.

- 2.29 This costing is based on highly uncertain assumptions. We note that last year just 479 homes were disposed of, raising £100 million. This is just 2 per cent of the funds needed for the Conservative Party's proposal to be fully funded. We further note that the Conservative Party has pledged that they money it intends to raise will fund; the building of 400,000 homes through a £1 billion fund; the replacement of every home sold through 'Right to Buy'; and the funding of a discount for 1.3 million tenants of up to £102,700 in London and £77,000 elsewhere.
- 2.30 We have also examined the impact this policy will have on welfare spending. The Conservative Party has said that it will require councils to sell their most valuable 210,000 social rent properties and replace them with higher affordable rent homes. We estimate that this will lead to an increase in the housing benefit bill of billions of pounds. This is in line with calculations from the National Audit Office showing that the added cost to housing benefit of replacing social rent homes with affordable rent homes is £17,500. This works out at £3.7 billion for all 210,000 homes sold.
- 2.31 The cost of this commitment is £4.5 billion. The Conservative Party has identified £100 million of funds to pay for it.

Childcare claim: £590 million

- 2.32 The Conservative party manifesto claims that they would "give working parents of three and four year-olds 30 hours of free childcare a week". They also claim that this is to be paid for by restricting pension tax relief for people with incomes of over £150,000 per year.
- 2.33 The @ToryTreasury Twitter account claimed that restricting pension tax relief would raise £1.4 billion per year. However, this revenue is also allocated to the announcement made in the same manifesto that the Conservative Party would reduce inheritance tax for those with properties worth £2 million.
- 2.34 The Conservative Party Special Brief, published on 11 April 2015, said that the cost of this cut in inheritance tax for the wealthiest 10 per cent would be £1.05 billion. When this is taken into account, the remaining revenue from the restriction in pension tax relief is just under £350 million.
- 2.35 The Conservative party calculated that the cost of increasing free childcare for three and four year olds from the current level of 15 hours to 25 hours each week would be £800 million in 2015-16. This is shown in chart 2.3, reproduced from page 25 of the Conservative Party publication *A Cost Analysis of Labour Party Policy, The scorecard for 2015-16*, published on 5 January 2015.
- 2.36 The £800 million cost of an increase in free childcare from 15 to 25 hours each week means that an increase from 15 to 30 hours costs £1.2 billion. Calculations based on analysis by independent experts in the House of Commons Library shows that this cost will be partly offset by reduced spending on childcare through tax credits, which gives a saving of £260 million. The overall cost of the Conservative party childcare policy is therefore just under £940 million.
- 2.37 The £350 million unallocated revenue from the restriction to pension tax relief means that the unfunded cost of this claim is £590 million.

Table 2.3: Conservative costing of childcare policy

Policy	2015-16 (£ million)
25 hours of free childcare for 3 and 4 year olds	-800

Source: Conservative party, *A Cost Analysis of Labour Party Policy, The scorecard for 2015-16*, 5 January 2015

3 Cost of Conservative Party manifesto: £25 billion

3.1 Our policy costings of the Conservative Party manifesto has identified £25 billion per year of unfunded claims.

3.2 Table 3.1 sets out the aggregate cost of these policies.

Table 3.1: Conservative costing of childcare policy

Policy decision	Annual expenditure (£ billion)	Source for annual expenditure	Identified annual revenue (£ billion)	Source for identified annual revenue
NHS spending plans	8	Conservative Party Manifesto 2015, p.37	0	N/A
Raise the personal allowance to £12,500	6.5	House of Commons Library research	0	N/A
Raise the higher rate threshold to £50,000	3.9	House of Commons Library research	0	N/A
Freeze rail fares	0.4	Patrick McLoughlin, Press Association, 1 August 2014	0	N/A
Public sector worker volunteering scheme	1.2	Calculations based on public sector paybill growth, OBR, Economic and Fiscal Outlook, March 2015, and Public sector pay, ONS, Blue Book 2013	0	N/A
Extended right to buy	4.5	The Guardian, 27 October 2014	0.1	Department for Communities and Local Government, Local Authority Housing Statistics 2013-14
Childcare	1.2	Conservative Party, A Cost Analysis of Labour Party Policy, The scorecard for 2015/16, 5 January 2015, p.25	0.6	Calculations based on Conservative Party Special Brief: Taking the family home out of Inheritance Tax, 11 April 2015, and House of Commons Library research
Total expenditure	25.7	Total identified revenue	0.7	
		Difference between total expenditure and total revenue	-25.0	

4 Cost to working families: £1,439 per household

- 4.1 This section examines the impact of the Conservative Party's proposals on UK households.
- 4.2 We note research by the Institute for Fiscal Studies demonstrating that families are on average £1,100 worse off as a result of tax and benefit changes introduced by the Conservative-led Government. In addition, estimates from HM Treasury have shown how the decision to increase the standard rate of VAT to 20 per cent in the June 2010 Budget has cost a couple with children £450 a year – a total of £1,800 since the rise was introduced in January 2011.
- 4.3 Our analysis suggests that households will continue to pay more in the next Parliament. We have identified £25 billion of unfunded proposals set out by the Conservative Party. The Party has not set out details of how the funding needed to deliver these proposals will be found.
- 4.4 The Office for National Statistics estimates that there are 17,339,000 households in the UK with someone in work. The Conservative Party has itself used this figure in recent weeks. If this £25 billion cost was shared equally amongst working households it would mean a bill of £1,439 a year for each working household.

Conclusion

The choice at the next election is between real, concrete, fully funded pledges from Labour and desperate promises from the Tories.

The Conservatives have made £25 billion worth of promises with no clue of where the money is coming from. This is the equivalent of £1,439 a year for every working household in Britain.

No party in living memory has gone in to a General Election showing such a disregard for the electorate. To offer up desperate promises on this scale while making no attempt to be clear on the price tag is taking the electorate for fools.

This is the choice the Tories have made. And their track record reveals who will pay the price. Since 2010 they have hit working people hard - putting up VAT and cutting tax credits – while millionaires have been given a tax break. They have done it before. They will do it again.

The Tories are making desperate promises and working people would pay the price.

Annex A

The Conservative Party's unfunded commitments: what the experts say

- A.1 Paul Johnson, Director of the Institute for Fiscal Studies has said that even without their unfunded policies the Conservative Party needs to deliver “dramatic spending cuts or perhaps tax increases between now and 2018”.

“Now, even without any additional policies, that requires really very dramatic spending cuts or perhaps tax increases between now and 2018, at least on the scale that we've seen over this Parliament. If, in addition, you add on commitments to increase spending on the NHS and to reduce taxes, that makes those other policies, those other squeezes on departmental spending or social security spending even harder to achieve.”

Paul Johnson, Institute for Fiscal Studies, BBC News, 14 April 2015

- A.2 He added that the Party is going to have to do “an enormous amount over the next three or four years” with “no sense at all” about how they'll deliver.

“Today we got a very clear sense that the Conservatives are going to have to do an enormous amount over the next 3 or 4 years, but almost no sense at all about actually how they are going to do.”

Paul Johnson, Institute for Fiscal Studies, BBC News, 14 April 2015

- A.3 The Financial Times have warned that the Conservative Party's “spending spree” is “large enough to raise concerns about the Tories' commitment to their economic plan.”

“But the spree is large enough to raise concerns about the Tories' commitment to their economic plan.”

Financial Times, Leader, 15 April 2015

- A.4 The Chartered Institute of Housing has said of the Conservative Party's Right to Buy proposal that they “fear the figures simply won't stack up”.

“The Conservatives say that forcing councils to sell off their most valuable properties would fund this extension plus 400,000 new homes over five years – we fear the figures simply won't stack up.”

Gavin Smart, Deputy Chief Executive of the Chartered Institute of Housing, 14 April 2015

- A.5 The National Housing Federation has estimated that the Right to Buy proposal could cost as much as £11.6 billion and warned that “there are too many unanswered questions about how the policy would work in practice”.

“Even with this discount, not every household could afford such a mortgage – the proportion of tenants varies by region from 15% to 35%. This means that across the

country there are 221,000 households that are eligible for the new proposal and able to afford the mortgage. And if all of these households decide to take up the scheme, it would cost £11.6 billion. Indeed, the longer the scheme operates for, the more households that become eligible.

“This is a significant amount of money that needs to be funded. But many questions arise: will the sale of council properties raise enough to pay for this scheme, brownfield regeneration and replacing council stock in the same area? Will council house sales happen at the same rate as people who take up this new Right to Buy? What will be the impact of losing social homes in high value areas (particularly rural areas) and can they be replaced? How will lenders of housing associations react if they know homes can be sold off after three years? Will the larger, higher value and better housing stock be sold first?

“With so much at stake, there are too many unanswered questions about how the policy would work in practice and the impact on affordable housing supply across the country.”

*National Housing Federation, 15 April 2015,
www.housing.org.uk/media/blog/right-to-buy-extension-estimated-to-cost-12-billion*

