

## **My Alternative Budget Speech – October 2024**

Mr. Speaker, it is an honour and a privilege for me to have this opportunity to present to the House the government's budget for the coming year.

As the House will already know, our economy and government finances are in a desperate and sorry state. Over the past nearly 25 years we have suffered a series of setbacks that have enveloped us in a perfect storm, starting with our membership of the European Union Single Market which has seen our trade balance with those countries plummet from having been broadly in balance to a deficit at the time of the Brexit Referendum of £109 billion; that's 6% of GDP at that time. This has presented British business with a contracting market. Generally speaking business will not invest into a contracting market, with the result that productivity growth has suffered.

Then we had the banking crisis, triggered by an oil price spike in 2007 which led to the default of many sub-prime mortgages in the USA and which our banks had invested into. But there were also collapses on this side of the pond such as Northern Rock and HBOS which were simply due to over-trading, and that can only be due to a failure of regulation here. One bright spot then arises as the banks were quickly recapitalised through the use of quantitative easing, which did not on that occasion produce inflation as it was merely replacing credit which had been destroyed in the crisis. Unfortunately later on the QE was restarted with inevitable inflationary consequences.

On top of all that we had austerity and the failure to start a Sovereign Wealth Fund when interest rates hit the floor. Mr. Speaker, I am sure that most members are aware that 5% compounded will quadruple your money within 30 years, and 7% double it within ten. Even if we had funded it through borrowing at 5% simple, and the cost has been actually much lower than that since then, and received just 5% return on investment, and most fund managers have been doing much better than that since then, we would still have enjoyed a substantial profit as the compounding effect accelerated returns way ahead of the cost. What a golden opportunity completely missed!

Then we come to Brexit which some today are blaming for all our financial woes. Mr. Speaker, I do not accept that analysis but instead that the Trade and Co-operation Agreement has locked us into the catastrophic trade deficit we inherited from the Single Market. It is not enough to secure no tariffs in either direction when there are a host of other regulations creating the imbalance, and we need the use of tariffs to counter that effect. That will almost certainly mean scrapping the TCA, and whilst trade volumes may fall, the much greater effect of import substitution will present British business at home with the expanding market they crave to invest and create productivity growth and jobs.

Following that we had Covid and the energy crisis caused by the war in Ukraine, thankfully temporarily as Russia has found other outlets into the international oil markets, and all of the panic over climate change. And if that weren't enough mass immigration, quite apart from increasing cultural conflict within the country, has condemned wages to minimum levels, undermined working conditions and caused record levels of unemployment and homelessness. And to cap it all, we have an ageing population pushing the cost of pensions and health care through the roof. Oh dear, oh dear, oh dear!

Now, Mr. Speaker, it is not my intention to spend time trying to apportion blame for this situation. Many of these circumstances were beyond our control, and for others it is easy to be wise after the event. My purpose is to identify the causes so we can take appropriate action to remedy them and to quantify the task itself. Our National Debt is now close to 100% of GDP after having been nearly paid off a quarter of a century ago, and the cost of interest on that debt is now over £100 billion a year, nearly 4% GDP in itself, and rising. The total fiscal deficit is around £170 billion and that is adding to the Debt all the time. It is imperative, Mr. Speaker, that we get our nose ahead of the game so that we can reverse the whole process.

My strategy is based on three key objectives necessary to provide a tripod of stability for our recovery. First I aim to achieve a fiscal surplus of 1% GDP within five years. Second I want a trade surplus of 1% GDP by that time, and third we must achieve net zero immigration as well. Add to that some essential tax cuts to motivate growth and expenditure increases to avoid imminent

collapse of some public services and we are looking at an annual fiscal turnaround of £300 billion by the end of our first five years.

On average I must save £60 billion in each of the next five years, but that is only on average. There are couple of policies which can raise substantial funds in excess of this amount up front, while others such as revived economic growth will be weighted towards the end. The good news is that over the following five years those trends should lead to a much greater turnaround of around £450 billion or more, with much greater scope for both tax cuts and expenditure increases, which I shall aim broadly to keep equal. I shall also aim to cut the total level of taxation down to 30% GDP, whereas currently it is around 37%, all the while maintaining fiscal and trade surpluses of 1% GDP. History shows that all the economies with the highest rates of economic growth have run Balance of Payments surpluses and I am determined the UK should be in that group.

So, Mr. Speaker, let me make a start.

My first port of call is multinational corporations, which have long had a habit of shifting their profits into tax havens, or semi tax havens such as the Republic of Ireland, to avoid corporation tax in this country. Now I accept that at 25% our rate of corporation tax is too high, and I shall return to that later, but for now may I completely reject the argument that this country must somehow engage in a race to bottom just to remain competitive. There are other ways we can regulate our trade balance, and in any case if we were able to collect what is morally due to us, profits made out purchases by the good citizens of this country, that would provide the funds to reduce it.

Over ten years ago now, the G8 at its summit in Enniskillen tasked the OECD with ending this practice. They have completely failed to do so and show no signs of any significant progress as they just kick the can further on down the road. Clearly the multinationals have got to them! We cannot afford to wait any longer.

The good news is that this is very easy to rectify. Henceforth multinationals, which we shall define as any company that has more than 10% of its turnover in more than one country, shall be taxed on the basis of their global profits, as

declared to their shareholders and in the public domain, and apportioned to this country by turnover, including non-domestic intercompany sales. They may be able to shift their head offices and their intellectual property rights, but they cannot shift their customers! It is difficult to forecast accurately without an established database exactly how much additional revenue this will raise, but our best estimates suggest it could be within the range of £40 to 50 billion if not more.

Second, Mr. Speaker, I am abolishing Inheritance Tax. **It is a very inefficient tax, raising only about a third of 1% GDP; is double taxation in the hands of the deceased; uses up a disproportionate amount of tax legislation and consequently distracts the attention of thousands of lawyers and accountants who should be more constructively engaged.**

**However I recognise that a society in which around 2% of the population own 80% of its assets is not a healthy one. I want to reduce this wealth gap but not eliminate it. It remains important that those with energy, ability and enterprise can profit from them for the benefit of us all. In practice however much of this accumulated wealth is passive asset appreciation.**

**I therefore aim to raise about 2% GDP by charging legacies to capital gains tax in the hands of beneficiaries. This would require a 50% withholding tax to counter avoidance, but which would be repaid, with interest, when the gains are presented for assessment. I do not propose to introduce a wealth tax, which would also be double taxation in the hands of the taxpayer as well as very difficult to collect as much of it would disappear into overseas trusts and corporate structures.**

**Capital gains will be assessed to income tax at the taxpayer's marginal rate with no additional allowances. However I am allowing it to be spread over ten years so that poorer beneficiaries can use up more of their allowances and lower rate bands. This reflects the rule-of-thumb PE ratio of 10 often used to value small companies.**

**Existing roll-over reliefs from inheritance tax such as for farms and businesses will be maintained and I am adding relief for the repayment of any student loans, not necessarily those of the taxpayer. Tax on occupied**

primary residences, again not necessarily by the taxpayer or his family, such as a sitting tenant, may be deferred until that occupant leaves.

I am also abolishing Non-Dom status, but replacing it with a flat cap on income tax, including capital gains, of £250,000 in any one year.

These two changes alone should raise around £80 billion a year. I am not seeking to raise any other taxes. I am however reintroducing marginal relief from corporation tax for small businesses with a zero rate allowance of one million and a lower rate band of two million. The lower rate will be half the full rate which remains at 25%. In the longer term I aim to reduce taxation to 30% GDP and increase the personal tax allowance to match the typical minimum wage at £20,000, and reduce the top rate to 40%. I may also introduce an intermediate rate at 30%.

Mr. Speaker I now come to a series of changes focused on reducing the burden on the taxpayer without endangering essential public services by focusing on efficiency and alternative sources of finance.

Better late than never I am introducing a Sovereign Wealth Fund which will be funded by borrowing at an interest rate not greater than 5% and at an amount, if available in the gilts markets, of 1% GDP a year. The asset will offset the liability and therefore have no effect on net debt. This will be farmed out to multiple professional fund managers with after time the more successful attracting greater contributions.

In addition I am starting the funding of a new state pension. This necessarily must be a gradual and prolonged process which will not have any significant effect on the public finances for many years. It will be available only to those under the age of 25 on 6<sup>th</sup> April next year and will be optional. Modelling suggests it will primarily benefit those on above average salaries, thereby halving in due course the number in the existing state pension. This in turn may allow us to improve the existing state pension significantly. For those who opt in, the existing employee national insurance contribution of 8% becomes a national pension contribution and is placed in an account in their name to which a guaranteed 4% interest is added annually. Of the three parameters of contribution rate, retirement age and pension amount, they

will have the flexibility to fix any two and get a quote for the third. They may opt in or change these parameters at a later date, subject to not reducing the pension to an annuity equivalent below the level that would trigger entitlement to pension credits, and their remaining entitlement to the existing state pension will be determined by the number of years' contributions in the existing way. This will create a fully flexible and transferable pension scheme which is currently unavailable to many, including those who switch employment between the public and private sectors. The money will physically go into the Sovereign Wealth Fund, which should get a better return for carrying risk, and will be part of its 1% GDP per annum funding target.

Mr. Speaker I am also introducing a National Credit Card. The purpose of the card is to give all citizens access to the private sector for essential services such as health and education on a means-tested basis. Just taking the health and schools budgets alone costs the taxpayer around £250 billion a year. If 50% used the private sector instead, and the average means-tested support for fees was also 50%, then the saving to the taxpayer would be over £60 billion a year.

We shall have to introduce this gradually to enable the supply side to meet increasing demand and it will be optional. Users pay for services in the normal way but do not have to settle the card at the end of the month. Instead after the end of the year when the taxman assesses your tax he will also review how much you have spent on your card, put the two together and recharge your share of the cost to your tax bill for the following year. Working capital will come from the Sovereign Wealth Fund at 5% which will be added to your costs from the date of purchase, but users will be able to pay on account to avoid it. The means test rate will be a simple percentage set at the beginning of each fiscal year for each user set in due course to encourage 50% usage. Much of these savings will then be available to improve the state services, and the fact that the private sector is accessible to all will remove any stain of privilege that some attribute to it at present.

Mr. Speaker, with the help of my RH colleagues I am taking a number of measures to improve efficiency within our public services. First we shall be splitting the civil service clean in two so that the advisory side, which advises

ministers on current problems and future legislation, becomes completely separate and independent from the executive side, which delivers services mandated by Parliament. Two completely separate functions requiring separate organisational structures. This way the advisory side can assist ministers in holding the executive side to account.

Second we shall be appointing a national chief executive with the power to hire and fire local chief executives for every national public service. It is an extraordinary fact that currently few if any of our public services actually have any top management at all. No wonder they are all running around like headless chickens being hopelessly inefficient. These chief executives will be mandated to ensure that sufficient trained British staff are recruited into each service, that they are paid the rate for the job so that staff turnover rates are minimised, and that agency and support staff are reduced to less than 25% of payroll each.

Third, I am abolishing national wage bargaining in the tax funded public sector. Henceforth all such staff will be paid a full inflationary increase on 1<sup>st</sup> April each year. I reject the argument that this will create an inflationary wage spiral on the grounds both that there are no prices in this sector and that inflation increases the tax base anyway. But it is also important for staffing stability that all staff are paid the rate for the job, which will vary by skill and location across the country and therefore cannot be addressed on a national basis.

These measures taken together could save another £30 billion a year as well as ensure they are no longer dependent on immigration for staff.

Speaking of immigration, my RH friend the Home Secretary will be scrapping the current points-based system and replacing it with an auctioned reducing quota system so that total immigration is reduced to below emigration rates within five years. It is therefore vital that we are able to reduce unemployment at the same or faster rate. Indeed we currently have over 3% job vacancies across our economy which is roughly double historical norms and only serves to suck in yet more immigrants. I shall therefore be instructing the Bank of England's monetary policy committee henceforth to use a composite 4% target when setting interest rates; that is 2% inflation plus 2% job vacancies. I anticipate this will mean interest rates will remain at

around the 5% mark for the foreseeable future, which is necessary anyway to encourage savings and fund investment, and will also probably be needed to contain the inflationary impact of wage rises in a tighter labour market. I shall be addressing the housing market separately in a few moments.

In addition I have a new regional policy designed to reduce the regional pay and unemployment gaps. It must make sense to focus stimulation to where unemployment is highest post code by post code across the country leading eventually to an even level of percentage employment across the land. This will increase income tax revenues and reduce welfare claims so it is likely to be fiscally neutral in the longer term.

To do so I shall cease funding new free tax and enterprise zones, which have a very chequered and uneven history, and instead introduce discounts for income tax, business rates and employers national insurance where the discount is proportionate to the local level of unemployment. For the coming year this discount will be 5% for every 1% that unemployment, measured on the claimant basis, is above 5%. We will review this algorithm annually to ensure a steady reduction in the regional gap.

I also have a number of measures to free up the labour market to reduce structural unemployment. First I am repealing all IR35 legislation, which was designed to prevent employers avoiding the cost of national insurance contributions on permanent staff, by the simple measure of charging the invoices of self-employed and agency staff to NICs also. Professional fees will be exempt. The increased revenues will be used to reduce employers NICs for all so that the measure is fiscally neutral.

In any case I am immediately reducing employers NICs to 12% and increasing the minimum wage and universal credits in line with the triple lock on the state pension. I am also introducing marginal relief for employers NI with a zero rate allowance of £1000 per week of payroll, and a lower band of £2000 at rate of half the full rate.

Second my RH friend the Work and Pensions Secretary will be undertaking a full post-implementation review of the introduction of Universal Credits with a view to making it simpler and more streamlined and efficient. In particular he will ensure that the thresholds for and rates of clawback are also

universal, and that once vetted claimants do not have to reapply every time they get a gap between jobs. This is particularly important for self-employed people who currently often decline short term or low paid assignments because of the hassle and delays in reapplying.

Within this context I am increasing the threshold, or earnings disregard, for universal credits to £50 per week. This will create a much greater incentive for unemployed people to make that first leap back into employment, and will also allow low paid workers in the taper to keep more of what they themselves have earned. This will both reduce the poverty trap and the pressure on food banks many of which are struggling to obtain sufficient supplies.

Mr. Speaker, I now turn to support for farmers and care homes. At first sight they do not have much in common but they are both essential to our wellbeing, are competitive within the private sector and yet need financial support if they are to produce both food and care at affordable levels and remain profitable. Furthermore farmers are in competition with foreign imports which are heavily subsidised.

For both industries I am introducing a public subsidy at 10% on turnover. This will be subject to a profit cap at 5% before tax to prevent profiteering by larger businesses at the expense of both taxpayer and customer. The subsidy is designed to promote sales, and the profit cap will encourage competitive pricing and support greater expenditure. Qualifying directors remuneration will be restricted. In future years the rate of subsidy will be adjusted so that no more than 5% of businesses liquidate each year.

Many businesses in a variety of industries receive public subsidies and there has been much concern at their profits. I am therefore extending the profit cap to all entities in receipt of public subsidy, though the cap may vary according to their capital investment requirements. I am also extending it proportionately to all companies with contracts with the public sector worth annually over 10% of their turnover.

Finally Mr. Speaker I come to the housing market. I shall be reducing house prices from now on by between 1 and 2% a year on average. This is easily

done by giving the Bank of England that target and by tightening criteria such as mortgage to value and income to mortgage used by commercial lenders.

Now you may at first sight think that would make it more difficult for prospective purchasers to find and buy a new house, but in fact that is not so. For one thing the number of available houses out there does not change, and for another the supply is likely to increase because sellers will hurry to sell before prices reduce further. More importantly developers will no longer be able to make capital gains on their land banks and so can only build houses on them and sell them. In monetary terms the reduction in demand will be matched by a reduction in prices until all available houses are sold.

The misconstrued Help to Buy policy has just made matters worse, so I am in effect reversing it. Last year fewer new houses were built than before the policy was introduced over ten years ago and it has just pushed house prices even higher. Irrespective of whether we can balance supply and demand, the amount of credit tied up in the housing market means that house prices are likely to remain high. Yet house prices must come down if younger people are to buy when they get married and start a family and others to escape the parental nest and develop as independent adults.

Currently it takes on average over five years to build out a granted planning consent whereas not so long ago it was only two. It has been reported that there are hundreds of thousands of such consents gathering dust in the pending trays of property developers because they can make more money from capital gains. But it is important to understand also that they have themselves been squeezed by increasing land prices. As a result they have endeavoured to recoup their margins by resorting to dodgy practices such as denying buyers adequate snagging periods and tying them up into leaseholds with uncontrollable ground rent increases, and generally cutting costs and building to very low standards. Many such properties are now unsaleable. Mr. Speaker I am giving Help to Buy purchasers a new six month snagging period, with a survey at taxpayer's expense to ensure objectivity, and with all restitution costs at the sellers expense.

My RH friend the Secretary of State for Housing, will be carrying out a full review of planning and related procedures including the possible repeal of the 1961 Land Compensation Act which gives 100% of all planning gain to landowners. We believe it may be more appropriate to divide planning gain

equally between landowners, a national development corporation with powers of compulsory purchase to focus new development in the North where there are plentiful brownfield sites available, supported by regional policy which will encourage both people and jobs to move there, and local development corporations who can use the money for local infrastructure thereby creating balanced communities. The South East is overcrowded and current development priorities just make that worse. They are levelling down not levelling up. We will protect and maintain the green belt.

On social housing I am restoring the full housing benefit which will become affordable again as immigration falls. This will allow housing associations access to the City for development finance, and I shall be adding a government guarantee to help reduce borrowing costs.

Following the Grenfell Tower Tragedy many leaseholders have become trapped with spiralling service charges which they cannot pay. I am therefore limiting service charge increases to inflation backdated to the date of the tragedy, and will refund landlords forced into loss by this, subject to reasonable limits on insurance premiums and other costs.

In summary Mr. Speaker I anticipate that for the coming year tax increases and expenditure savings will bring in around £80 billion and tax reductions and expenditure increases cost around £20 billion, giving my target net saving of £60 billion. I am also placing a five and ten year Source and Application of Funds Statement in the library and online. So now it just remains for me to thank the House for their patience and attention during this speech. It is a budget for working people and small businesses combined with a strategy to save Britain, and I commend it to the House.

	£ billion	
Source of Funds	<u>Y5</u>	<u>Y10</u>
Increased growth to 2% above inflation	85	175
Reduction in unemployment	40	50
Stopping profit-shifting by multinationals	50	50
Starting a Sovereign Wealth Fund and reforming the State Pension	5	15
Introducing a National Credit Card for essential services	20	40
Shifting more investment in infrastructure onto the private sector	30	30
Improved public sector efficiency	30	40
Substituting capital gains tax on legacies to replace IHT	40	50
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	<u>300</u>	<u>450</u>
	=====	=====
Application of Funds		
Fiscal surplus of 1% GDP	200	200
Reduction in taxation	25	75
Increased expenditure	25	75
Provision for increasing State Pension	50	100
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	<u>300</u>	<u>450</u>
	=====	=====