
Perspectives

Inside British Politics



Political Overview

Conservative Party members now have their ballots. Most are predicted to vote in the coming days. Whoever wins faces a cost-of-living crisis this winter.

WHAT IS THE SCALE OF THIS CRISIS?

Campaigners say that people will be unable to meet their bills this winter without a fresh package of support. The support package the UK Government announced in May 2022 broadly covered the energy price increases of those in the bottom 25% of households entirely and a portion of the bills for all sections of society. It was based on an energy price cap of £2,800.

The cap is now being updated on a quarterly basis. Consultancy [Cornwall Insight](#) predict it will be around £3,600 in October, a rise of 82 per cent. It will then rise to almost £4,300 in January.

This creates a gap of around £1500.

Poorer households spend a greater proportion of their income on energy than higher income groups. The fear of potential civil disorder or people refusing to pay their energy and council tax bills is real. [Don't Pay UK](#) is a social media-based campaign to encourage non-payment of energy bills.

The debate is focused on how much the Government will pick up the cost of this, for whom and how it will be financed?

Neither contender has spelled out how they will respond in detail, but the mood music is clear.

- Sunak is planning a “bold Covid-style economic action” of direct payments like the package he outlined in May.
- Truss sees the challenge as about boosting real incomes so people can meet these costs. Truss favours tax cuts and supply side reform over ‘handouts’ although she has not ruled out direct payments, for those in need.

COULD A SUPPORT PACKAGE BE ANNOUNCED BEFORE THE LEADERSHIP RACE ENDS?

Former Labour PM Gordon Brown and consumer champion Martin Lewis have urged both camps to reach agreement on a support package now. This is unlikely to happen because the two camps are divided on how to respond. The leadership vote will resolve this. Johnson won't bind his successor by announcing his own package. Truss has described the idea as bizarre.

Truss should outline her approach in an emergency Budget in September. Truss's team are reported to be meeting with the Cabinet Office to prepare for Government, although Truss has denied this. Support announced in September can be delivered by October/November.

Truss has referred to wanting to work with energy companies to lower bills and work is already underway.

- A roundtable was held between the Chancellor Nadhim Zahawi MP, Kwasi Kwarteng MP (representing Truss) and energy companies to address the supply issues. They reportedly discussed company investment plans for the next 3 years, what companies can do to help customers and the Government asked companies to submit a breakdown of their expected profits and payouts.
- Chief Secretary to the Treasury Simon Clarke MP (a Truss supporter) has confirmed that HM Treasury are [compiling a cost-of-living support package of measures](#) for the new PM to consider when they enter office on 6 September 2022.

The demands for an immediate support package are about the opposition's narrative that the Government are absent (both the Chancellor and PM have been on holiday) or not responding quickly enough (Sunak and Truss).

WHAT DO BOTH LEADERSHIP CONTENDERS AGREE ON?

Targeted support for vulnerable groups seems likely to be part of the support package whoever wins. Both camps will honour the package of support outlined in May 2022 so households will receive £400 plus paid in 6 instalments from October onwards depending on their circumstances.

- Both sides have been circumspect about how their plans will be financed.
- Sunak promises no new tax increases as Government efficiency measures will finance the extra support.
- Truss is relying on higher economic growth and paying back Covid debts over a longer period.

Both sides have outlined limited measures of similar value, which cover only around 10% of the added cost and stated they will provide further support.

- Sunak has pledged to cut VAT from energy bills for 1 year to save the average household around £150.
- Truss's moratorium on the social and environmental costs levied on energy bills saves around £150.

WHAT DO BOTH LEADERSHIP CONTENDERS WANT TO AVOID?

Creating an expectation that it is the Government's role to compensate people for unexpected shocks generally.

- Mortgage rates are going to go up and this will impact household bills, the Government will not want to face pressure to have a support package for this.

Establishing permanent packages of support.

- The experience with Universal Credit (a Government payment to the low paid and out of work to help with living costs) where a temporary Covid related £20 a week uplift was difficult to remove has been instructive.

Committing to a level of support before the energy bill increases are confirmed. In case bills rise slower than expected and less support is needed.

- Sunak states he will wait for Ofgem to confirm the energy price cap increase.
- Truss says she will not write the Budget in advance.

WHAT DO BOTH LEADERSHIP CONTENDERS DISAGREE ON?

- Direct support with bills (Sunak) vs tax cuts and other unspecified support (Truss).
- Focus on funding to help the poorest households and disadvantaged groups with energy bills (Sunak) vs a focus on supply side reforms to tame inflation and boost incomes (Truss).
- Temporary support from Sunak vs long-term relief from Truss. Sunak's supporters claim that tax cuts cost more than direct help with bills as the former is more likely to be permanent.

If Sunak were to win his support package would likely include higher payments consistent with what he outlined in May which included:

- Direct financial payments to people's energy accounts such as a £400 direct payment to all households.
- Extra payments for Universal Credit and benefits, disability payment, low-income pensioners and the housing support fund and earlier than this a council tax rebate.

WHAT ROLE HAS THE UK GOVERNMENT PLAYED IN THIS?

Both camps attribute current difficulties to a supply shock caused by the Ukraine conflict. The UK has rightly chosen to impose tough sanctions. Russia is responding predictably by using its energy as a weapon. Peace in Ukraine could bring prices down, but it is unlikely to come soon.

The UK like other European countries has left itself vulnerable. There has been a multi decade failure of Government that all three main parties share in:

- The UK Government did not roll out nuclear plants.
- It did not insulate enough homes.
- It banned fracking which limited UK supply.
- It chose to close the rough gas storage facility in 2017 rather than finance its maintenance. Only in July 2022 was approval granted to reopen the site.
- Electricity supply became partly reliant on foreign imports of electricity from France and Norway. In the case of shortages, these countries will privilege their own nationals, as Norway has just signalled it is contemplating and France has threatened since Brexit.

Neither contender has developed a serious plan to address the supply issues. There is no guarantee that the existing high energy prices will not persist for many years. It would be difficult to sustain the level of current support for bills indefinitely.

Short-term relief measures could actually detract from efforts to adapt to higher prices. Price signals matter and higher prices boost investment in supply, encourage manufacturers to invest more in energy efficiency and nudge consumers to reduce usage.

WILL TRUSS HELP THE POOR WITH 'HANDOUTS'?

Truss has been criticised for her opposition to 'handouts' as a means of providing support. Her critics say she is not doing enough for poor households. She has not actually ruled out some direct payments. Her argument is that the Government should not tax people and then hand back money in the form of welfare. Truss's package will be broader than the NI cut, and it should be considered in full when it is outlined in the Budget.

Truss ally James Cleverly MP has said Truss is looking at 'targeted help' for 'the people that need it most.' This suggests there will be direct payments for poorer households that do not pay much tax. In terms of groups that are out of work Truss will most likely uprate benefits by inflation and she has already announced the return of the triple lock for pensions (a pledge to increase pensions each year by the highest of 3 measures - 2.5 per cent, inflation or average earnings growth).

WHAT MEASURES OTHER THAN 'HANDOUTS' COULD TRUSS CONSIDER?

Taxes are at a 70 year high and taxes on labour income and indirect taxes impact the poorest households most. Without large welfare 'handouts' Truss could consider the following to help the working age population:

- **Uprate the basic rate of income tax threshold by inflation**, giving workers on lower salaries a bigger boost. Truss has already reversed Sunak's policies on Corporation tax and National Insurance. Note Sunak wants to freeze thresholds until April 2026, which is predicted to raise £30 billion.
- **Change the earnings taper on Universal Credit which is currently 55% it could be reduced further to 50% or less** allowing those in work to keep more of their pay and making sure that work pays. IDS campaigned on this, and he is influential in the Truss campaign.
- **Help households to increase their hours worked, take on second jobs, or (re-)enter the labour market:**
 - *Alter childcare ratios or extend the school day to reduce childcare costs for families and it make it easier for parents to enter and remain in the workforce increasing overall household incomes.*
 - *Make it easier for individuals to take on short term seasonal work without losing access to welfare support: Reversing the 7-day waiting period established by Osborne. This*

would be particularly well suited to Christmas when more seasonal work is available. There are [around 1.3 million job vacancies currently available](#).

- A major drive to insulate homes: Previous schemes have been dropped due to low take-up, but this scheme could be targeted at low-income households. It could also be done on a loan basis with the cost being recovered through energy bills over a longer period as Sunak originally intended with his energy bill support.

- Adopt Sunak's policy to remove VAT from energy bills for a year. She could portray this as a Brexit win as removing VAT on energy bills was a Vote Leave campaign aim.

Households in the top half of the income distribution amassed savings during the Covid period. Wealthier households can also cut spending on travel and hospitality. These households don't need an uprated household support payment and can adjust to meet the higher energy prices.

WHAT DO THE BLUE-ON-BLUE ATTACKS TELL US?

Sunak's campaign is making increasingly vitriolic comments about Truss. The Deputy PM Dominic Raab described Truss's focus on tax cuts as 'an electoral suicide note.' Tees Valley Mayor Ben Houchen said Truss's now dropped public sector pay reform proposals were a 'ticking time bomb.' Former Conservative leader Lord Howard described her cost-of-living tax plans as suicidal. These comments damage Raab's chances of cabinet appointment and Houchen's of PM support. They suggest there will be a group of irreconcilable Conservative MPs and other politicians of uncertain size that could frustrate her reforms.

WILL THE TAX CUTS BENEFIT RICHER GROUPS?

Sunak's campaign has been attacking Truss for not being progressive enough on tax. This is a curious tactic given that many Conservative Party members like lower taxes and a significant proportion will likely be/have been higher earners.

On taxation Sunak has made the system less progressive. Freezing income tax thresholds until April 2026 will drag many more people into higher income tax brackets without any real increase in their income. 2 million more people are now higher and additional rate income tax brackets, and the number of such taxpayers has increased by almost half from [4.25m to more than 6.1m workers](#) since 2019.

Higher income groups contribute more to tax revenues and thus benefit more from tax reduction in absolute terms. The UK income tax system has become much more progressive over time with [the top ten per cent of earners now paying around sixty per cent of all income tax revenues](#). Most reductions in taxation benefit wealthier people more in absolute terms as they earn and spend more.

Looking at the National Insurance cut the bottom quintile gains £60, the next quintile £165, the middle around £310, the second highest quintile £488 and the highest £1,187. However, everyone earning over the modest sum of £12.5k from labour income benefits from the NI cut and wealthier groups such as pensioners do not benefit at all. Truss is restoring NI to the rate that the Conservative 2019 Manifesto promised it would remain at, so she has a mandate to do this.

Lastly, indirect taxes contribute directly to energy costs. A significant percentage of the energy bill gap is accounted for by tax and policy costs imposed on energy (£150 from VAT and £150 from social and environmental costs). Also, for transport costs, [46.6 per cent of the cost of petrol is taxation](#).

WHAT ARE OTHER COUNTRIES DOING?

Bonuses rather than pay and an electricity price cap: France has introduced measures to allow companies to pay their staff tax free bonuses. It has also capped electricity tariff rises at 4% and is to nationalise EDF.

Tax thresholds and suspending green levies: Germany is increasing income tax thresholds to provide relief; this includes increasing its upper rate tax threshold. Plans to abolish the renewable energy surcharge on electricity bills in 2023.

Mortgage relief: Poland is allowing mortgage holders to skip payments for 8 months over a two-year period.

