



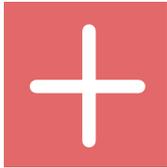
# SOCIAL PROSPERITY NETWORK REPORT

AN IGP KNOWLEDGE NETWORK



## Social prosperity for the future: A proposal for Universal Basic Services





HEALTHCARE



EDUCATION



DEMOCRACY +  
LEGAL SERVICES



SHELTER



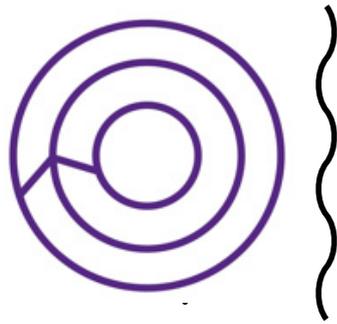
FOOD



TRANSPORT



INFORMATION



SOCIAL PROSPERITY  
NETWORK REPORT

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Produced by the Social Prosperity Network at the IGP  
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*and*

**Andrew Percy**, Co-Director of the SPN

# CONTENTS

The Social Prosperity Network at the IGP at UCL is pleased to present this Introduction to Universal Basic Services.

5

## **Foreword**

*By Professor Henrietta L. Moore*

17

## **Discussion paper**

*By Professor Jonathan Portes*

7

## **The Current Situation in the UK**

28

## **Technical analysis I: into Transport and Information**

*By Howard Reed*

9

## **Universal Basic Services: A larger life for the ordinary person**

*By Andrew Percy*

29

## **Technical analysis II: Into Shelter Food, and a basic income supplement**

*By Howard Reed & Andrew Percy*

We welcome your feedback and your contributions. Thank you.

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# Social Prosperity for the Future

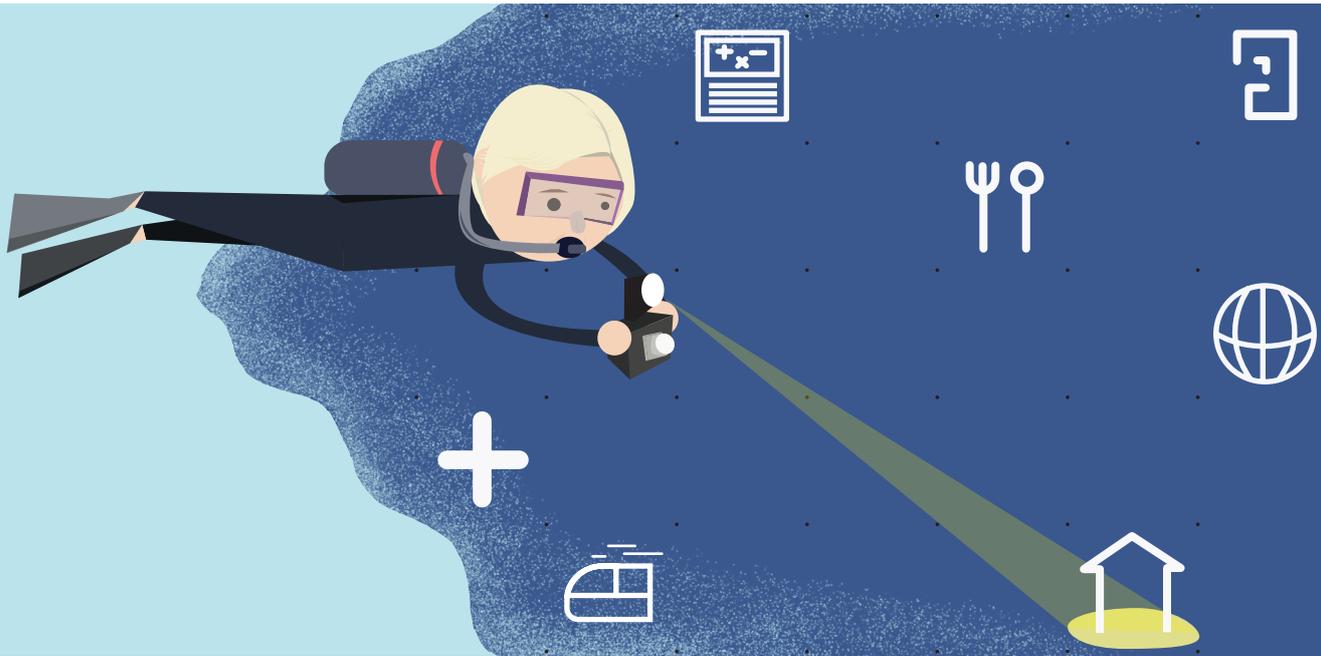
by Professor Henrietta L. Moore,  
*Director of the UCL Institute for Global Prosperity*



The UK's economy and society depend on public services. The continuing failure to deliver quality of life and prosperity for all is eroding the social cohesion on which our society depends, and undermining its ability to address the significant environmental, demographic, health and work challenges that lie ahead. The UK is not only underperforming economically; it is floundering socially.

Real incomes are dropping, and opportunities for many communities around the country are restricted and eroding. It is a dismal picture, but what gives the greatest cause for concern is the lack of public debate about how to tackle the situation. A broad consensus has emerged since the crisis of 2008 that the untrammelled pursuit of growth does not deliver quality of life for all. But the most common response to this challenge is to repeat the mantra that we cannot afford to invest more in public services due to the precarious state of the public finances. This is tantamount to saying that we cannot afford to invest in our citizens, in the people we live with and among.

At the Institute for Global Prosperity (IGP), we are committed to three things: public debate around new ideas; sustainable investment in social infrastructures; and public policy aimed at improving the quality of people's lives. We have been inspired by experiments in universal basic income (UBI) around the world, and by a series of discussions about how to rethink economies, both local and global. In this report, we lay out some ideas about how to deliver quality of life for the UK, improve public services in ways that are affordable, and link radical policy initiatives to improved social integration and cohesion. These are ideas for debate across the broadest spectrum in the UK, including local communities. We call this set of ideas Universal Basic Services.



Over four million people in Britain can't put food on the table at some point each year and we need to ask: why is that? If poverty is the difference between the cost of basic living and available income, arguably we have been overly focused on boosting incomes through redistributive tax systems and wage legislation.

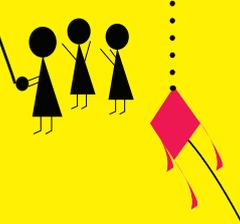
If we are to increase cohesion, the sense that we are “all in it together”, we must act where we can have the greatest impact and that is on the cost of basic living. Our research, presented in this paper, demonstrates unequivocally that money spent on basic services - the most fundamental building blocks for life required by every citizen in the 21st century - dramatically reduces the cost of basic living for the those on the lowest incomes. Basic services will reduce poverty because they will reduce the cost of a minimum living standard. Even if income levels remain static, it will make accessible a life that includes participation, builds belonging and common purpose and potentially strengthens the cohesion of society as a whole.

Focusing on basic services, such as housing, food, communications and transport, is, we conclude, far more effective at driving down the cost of living than spending the same money on existing services, or on redistribution. In the UK, basic healthcare and education are already free for all, and while further investment in those services is desirable, it will not affect the cost of living for those at the bottom of our society.

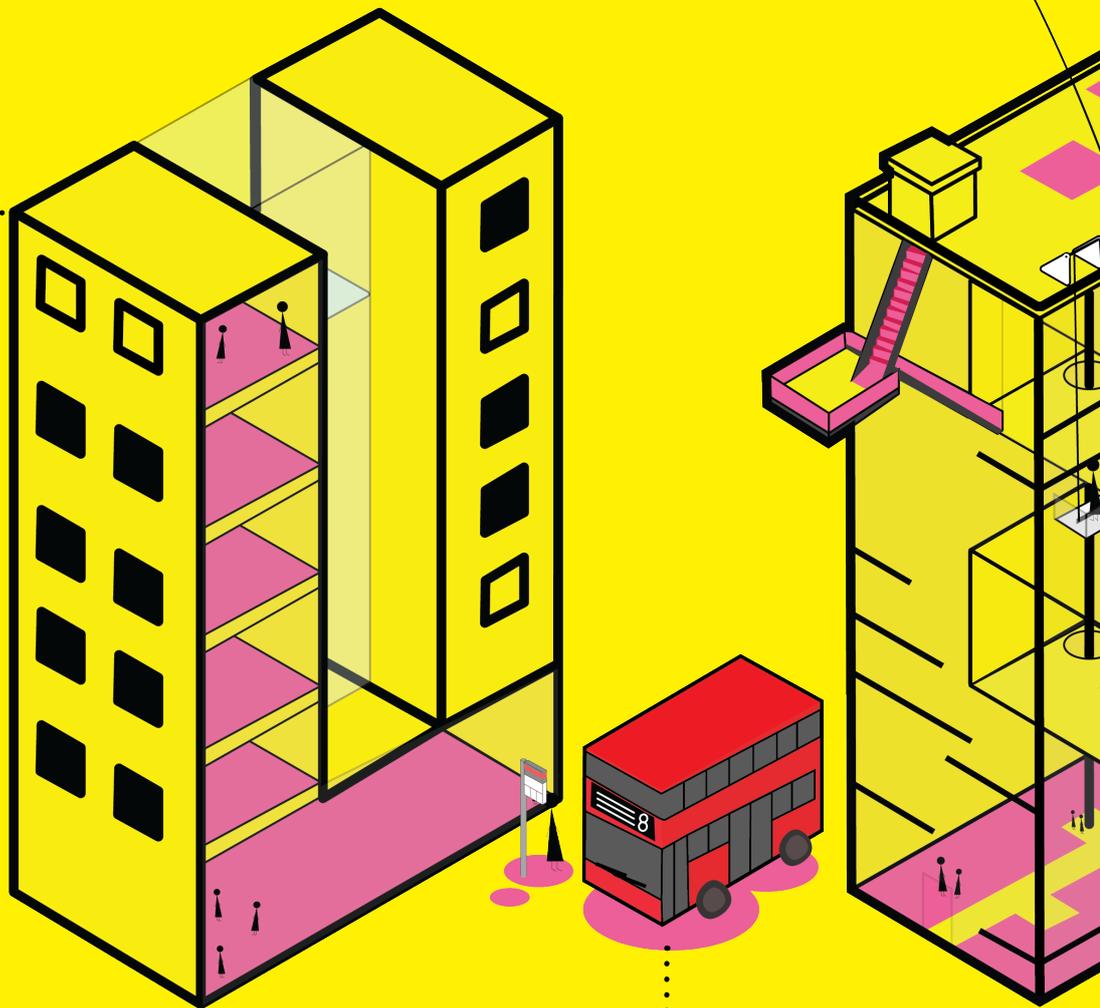
What we set out here is the blueprint for an enhanced but affordable social safety net. Following the Second World War, the British people through their elected government took a collective decision to institute the NHS - basing healthcare access on need rather than the ability to pay. In the 21st century, we have an opportunity to extend this principle and ‘raise the floor’ of what all citizens can expect. By so doing, we can create a solid platform for improving the quality of people’s lives and the prosperity of future generations.

Expanding universal access to basic services is the most effective way to bolster the public goods on which both society and the economy depend. The benefits such investment in social infrastructure brings are much greater than those targeted at individuals. What is clear is this: We can have a modern welfare state fit for the 21st century, and we can afford to pay for it. What remains now is a public debate about the validity and potential of the ideas we have on the table, so that we refine them, implement them, and generate the next set of ideas to fit the changing circumstances of sustainable prosperity for the UK today and for future generations.

**4 million children in poverty** in the UK, and this figure is projected to rise to 5 million by 2020 as further social security cuts come into force.<sup>1</sup>



**Social housing units decreased** by 20,000 between April 2012 and September 2014: 2,298 were built, 22,899 homes were sold.<sup>2</sup>



Between 1980 and 2014 **bus and coach fares increased by 58%** and **rail fares increased by 63%** in real terms.<sup>3</sup>



<sup>1</sup> <https://www.gov.uk/government/statistics/households-below-average-income-199495-to-201415>

<sup>2</sup> <https://www.theguardian.com/uk-news/2015/jun/25/uk-population-at-record-high-with-net-migration-the-biggest-driver>

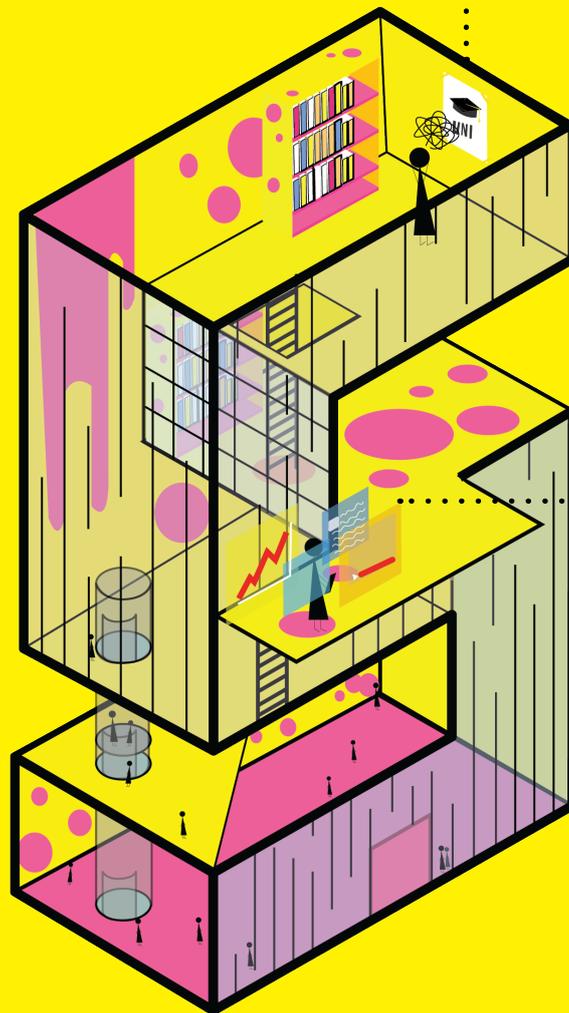
<sup>3</sup> <https://www.theyworkforyou.com/wrans/?id=2015-06-22.3443.h>



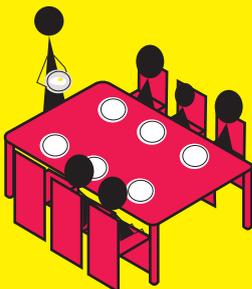
In England in 2015 there were **16,686 deaths from avoidable causes in the most deprived areas** whereas there were less than half that number (7,247 deaths) in the least deprived areas.<sup>4</sup>



**71% of students** are **STRESSED** and **ANXIOUS** about money and meeting basic living costs.<sup>5</sup>



17% of people earning less than £20,000 **never use the internet**, as opposed to 2% of people earning more than £40,000.<sup>6</sup>



**4 Million** people have difficulty putting food on the table each year.<sup>7</sup>

<sup>4</sup><https://www.ons.gov.uk/releases/measuring socioeconomic inequalities in avoidable mortality in England and Wales 2015>

<sup>5</sup><https://www.theguardian.com/money/2017/aug/26/average-student-food-budget-less-than-25-a-week-nus>

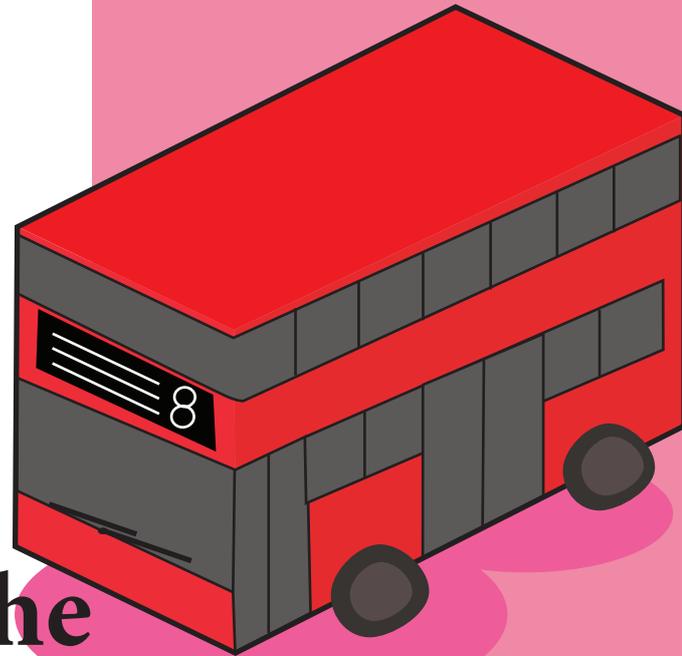
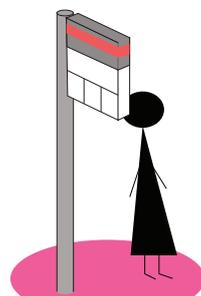
<sup>6</sup><http://www.nominettrust.org.uk/sites/default/files/NT SoA 4 - Employment and the internet.pdf>

<sup>7</sup><https://www.trusselltrust.org/2017/07/25/half-children-helped-foodbanks-summer-holiday-months-primary-school-students/>

Universal Basic Services:

# A larger life for the ordinary person

By Andrew Percy



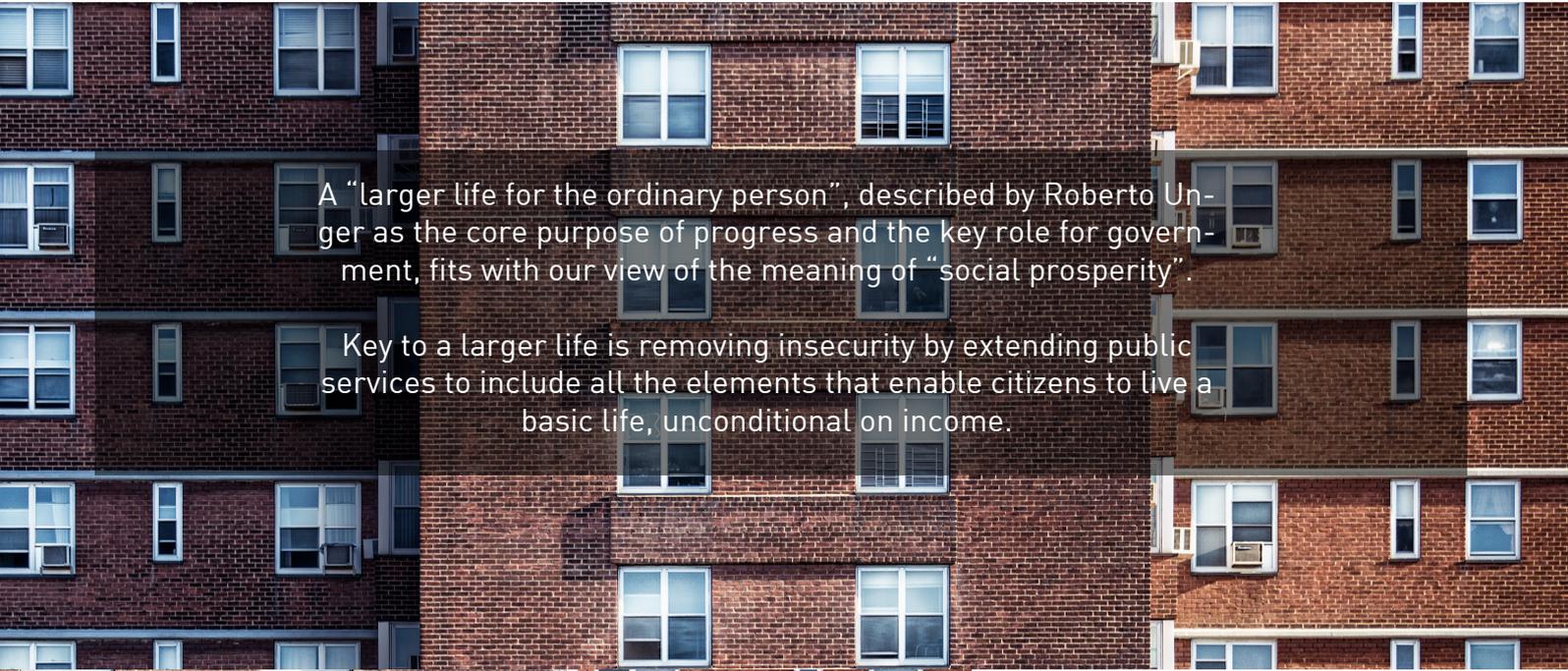
Various policy approaches over the last 30 years have failed to make sufficient progress in delivering the balanced society we aspire to, and which we will need to navigate the challenges looming ahead of us now.

Acknowledging that we are failing to deliver the necessary social cohesion, and failing to secure the productive capacity of our full population, we must also accept that there are limits to the fiscal burden that we can sustain, and that we have to act within those limits.

The OBR's central projection for current policy is for public debt to reach 234% GDP within 50 years, mostly caused by increases in costs related to mature demographics. Evidently we need a new vision that achieves a better balance, accepting the inevitable march of technology and demographics, providing essential social safety, and leaving space for the necessity for individual motivation.

A modern economy needs a social safety net that is just as modern, and one that is more flexible and effective than the conditional benefits system we have inherited.

The Social Prosperity Network was formed inside the IGP at UCL to address this conundrum, and our research has focused on social security structures as the nexus of these challenges. The great majority of the public budgets of modern societies are spent on social protection



A “larger life for the ordinary person”, described by Roberto Unger as the core purpose of progress and the key role for government, fits with our view of the meaning of “social prosperity”.

Key to a larger life is removing insecurity by extending public services to include all the elements that enable citizens to live a basic life, unconditional on income.

*Photograph by Vladimir Kudinov*

and support, directly influencing their private economies and the allocation of their resources. Progression through industrial, technical, and information revolutions brings the additional pressures of changing demographics (work) and mature demographics (ageing), both of which directly impinge on the social support systems of modern societies.

Our central finding is that an expansion of our concept of public services, and enhancing public goods that are shared by all, provides the catalyst to solve these problems sustainably, now and for the long-term. Moving from a primarily redistributive model for social security to a primarily service-orientated model meets needs more directly, increases efficiency, reduces costs, facilitates a vibrant private economy, and buttresses the institutional fabric of society. An enhanced services model is also likely to increase social cohesion, enabling common acceptance of the limits imposed on us by the challenges of finance, ageing, productivity and environmental degradation.

Universally available public services have the potential to provide the flexible, need specific, and responsive support that could affordably

replace much of the current conditional benefits system, while also preserving the value of remuneration, conforming with public attitudes, and building social institutional fabric at the same time.

Universal Basic Services address many of the real problems that other options raise: satisfying differentiated needs (e.g. disability, housing), general affordability, incremental implementation, political acceptability, and preserving the intrinsic value of monetary reward for contribution. In addition to Blundell’s “iron triangle” of social security (Controlling cost v Meeting need v Work incentives) we add political feasibility and resilient social institutional buttressing as required features of any sustainable new proposal.

Universal access to Basic Services delivers a common floor to our society by guaranteeing a minimum standard of life as a practical and observable manifestation of our common purpose. A platform of basic services makes real the promise that a basic wage pretends to deliver. Basic or minimum wages aspire to deliver a basic standard of living but, as we know, they fail to do so for many.

# What are Universal Basic Services?

Universal Basic Services (UBS) are a collection of 7 free public services that enable every citizen to live a larger life by ensuring access to safety, opportunity, and participation.

We repurpose the idea of public services to look at the feasibility of extending the same principles of universal access, free at the point of need, which we already manifest in our National Health Service, our public education, our democracy, and our legal services (albeit with variable quality). To the 3 existing public services we add Shelter, Food, Transport and Information. In some fashion these have been, or are, delivered as limited public services, but to reap the maximum returns all of these need to be elevated to more fully fledged Basic Services.

Enabling every member of society to maintain their material safety, and the opportunity to use their own efforts to make their personal contribution to their society are the first two criteria for a Basic Service, to which we add the vital element of participation as necessary to the functioning of our democratic political system.

	SAFETY	OPPORTUNITY	PARTICIPATION
 HEALTH CARE	✓		
 EDUCATION		✓	✓
 LEGAL & DEMOCRACY	✓	✓	✓
 + SHELTER	✓		
 + FOOD	✓		
 + TRANSPORT		✓	✓
 + INFORMATION		✓	✓










Table 1: Reasons for Including Services in UBS.



Photograph by Negative Space

# Exploring UBS Modelling Basic Services

## Shelter

For *Shelter* we use the widely accepted remedy of adding significantly to the existing stock of social housing. We model doubling the existing social housing stock by funding the building of 1.5 million new social housing units using 30 year Treasuries at current market rates. The new units would be offered on a needs basis at zero rent. All social housing would be exempted from Council Tax, and include a utilities allowance. With a 7 year building schedule the costs start at £6.1bn and finalise at £13bn from the 7th year onwards.

## Food

To alleviate food insecurity in the UK we use the FSA survey results from 2016 as the basis for a *Food* service that would provide one third of the meals for the 2.2 million households (8%) deemed to experience food insecurity each year. This would add to existing programs such as free school meals and meals on wheels, providing 1.8 billion meals at a cost of £4bn/year.

## Transport

For *Transport* we examine extending the existing Freedom Pass (currently for citizens over the age of 60) to everyone for bus services. The objective being to provide access to free local public transport services that enable citizens and residents access to jobs, education, health care and participate fully in their community - all of which are currently under threat. Assuming an increase in use of 260% the cost would be £5bn/year.

## Information

To promote digital inclusion the *Information* service covers the cost of basic phone, Internet and the BBC TV license fee. The objective being to enable access to work opportunities and other services, as well as participation in our democracy as informed citizens.

This is the most expensive service we considered with an annual budget of £20bn, however it also delivers universal value across all income groups and keeps all citizens connected in our increasingly digital world.



*Photograph by Pixabay*

## Comparing UBS and UBI

# Basic Services & Income

Universal Basic Services (UBS) and Universal Basic Income (UBI) are complimentary components of a sustainable future for social welfare. Progressive proponents of a UBI assume the pre-existence of a platform of social welfare services, and advocates of UBS must acknowledge that there are both personal and specific needs that will require some form of monetary distribution to preserve freedom and agency.

Universal Basic Services provide a floor to our society by guaranteeing a minimum standard of life as a practical and observable manifestation of our common purpose. This basic platform of services makes real the promise that a minimum wage aspires to deliver. A minimum wage aims to deliver a basic standard of living, but in practice it only reduces poverty if it is set high, and if it is high: work will be decreased, compliance reduced, and/or prices raised.

Common to both UBS and UBI is the idea that minimum wage levels denigrate and crowd out a multitude of small activities that are the foundation of prosperous and sustainable human society, by raising the lower limit on any activity that delivers less monetary value. Basic Services, on the other hand, actually deliver on the promise of a common floor to the standard of life of any citizen, replacing living costs for those that use the services, and increasing retained pay. This lowers the limit on marginal activities, making all kinds of small work worthwhile.

The debate between Basic Income and Basic Services revolves around the best use of available funds. There is always going to be competition between possible uses of finite tax revenues, and analysing the alternatives provides a framework for making these decisions. To enable this comparison our Technical Analyses show the option of using the same funds allocated to each Basic Service as a Basic Income instead.

# Exploring UBS

## Paying for Basic Services

Our research demonstrates that, contrary to popular imagination, Basic Services are well within reach of reasonable expenditures. Nevertheless they do, in aggregate, represent an increase in costs of 2.3% of GDP.

### Social Wage

*A “social wage” is the value of a public service to an individual citizen, expressed as replacement for financial income.*

Reducing the Personal Allowance to £4,300/year (leaving the current benefits system in place as is) would make UBS revenue neutral, and be highly progressive.

Key to understanding the effect of UBS is the “social wage” value of the services: £126 of net weekly earnings for an individual accessing all of the Basic Services. This demonstrates that UBS have the potential to increase retained earnings even if basic labour rates decreased by up to 30%, and at the same time build social capital, and increase opportunities by making previously marginal work viable.

The distributional impact of those services is highly progressive, addressing the “left behind” in our society by delivering the greatest impact for the lowest paid. On a purely financial analysis the effects are progressive, but even more significant impacts are likely to be in related areas such as accessing employment opportunities as other studies on the availability of services such as digital access and local transport have shown.

These effects provide further support to the argument that UBS provide an effective and cost efficient safety net that delivers on the “iron triangle” by holding down costs, meeting needs, and enhancing work incentives.

We believe UBS is an exciting new idea that offers an affordable path forward for modern economies struggling for balance between the inevitable changes brought about by changing demographics and demographics, and the need to maintain cohesion and solidarity.

## UBS Advantages

<b>Meets needs more directly</b>	Services, by their nature, are used when and where there is demand for the service. Services can target needs where means testing might miss specific deprivations.
<b>Increases efficiency</b>	The value delivered by services to individual recipients most often exceeds the cost of the service provision because the economies of scale achieved through generalised provision, thus circumventing the premium of satisfying individual requirements purchased individually. When services are locally designed and delivered with intimate knowledge and understanding of specific local circumstances efficiency can be further increased (by as much as 14% in 2014 LGA/RSA research).
<b>Reduces costs</b>	The feedback effect of a flexible labour market: to the extent that the cost of UBS delivery contains labour costs then those costs are potentially reduced by the social wage attributed to enhanced social safety by labour contributors who are also UBS recipients.
<b>Facilitates a vibrant private economy</b>	The increased social security provided by UBS allows a more flexible labour market to arise without endangering social safety. This more flexible labour market increases labour bargaining power, enables entrepreneurial initiative, allows labour rates to float more responsively, and supports enhanced micro-economic activity such as environmentally beneficial repair services.
<b>Buttresses the institutional fabric</b>	UBS require social institutions and support the development of public service infrastructure.

# Exploring UBS Costing Basic Services

The Technical Analyses attached look at the costs and distributional effects of the four services we propose to add in our definition of UBS: Shelter, Food, local Transport, and Information and communications access.

As can be seen in the summary tables below UBS meet needs much more directly for those on the lowest incomes in a society, and always deliver greater value for the same expenditure, than a cash distribution.

<b>+ 4 UBS</b>	 <b>Shelter</b>	 <b>Food</b>	 <b>Transport</b>	 <b>Information</b>	<b>UBS TOTAL</b>
<b>Definition</b>	1.5 million new social housing units @ zero rent + Council Tax exemptions + utilities	Food insecurity 1.8 billion meals (7 meals/week)	Free local public transport	Basic cell phone, home Internet, BBC TV license	
<b>Cost</b>	£13.0 Bn	£4.0 Bn	£5.2 Bn	£19.9 Bn	£42.16 Bn
<b>D1 effect</b>	£39.48 / week	£24.88 / week	£2.44 / week	£5.43 / week	£83.23 / week
<b>User value</b>	£86.87 / week	£12.96 / week	£21.20 / week	£5.43 / week	£126.46 / week
<b>UBI equiv</b>	£3.85 / week	£1.19 / week	£1.54 / week	£5.88 / week	£12.47 / week

To the cost of the UBS we have added additional budget to fund the costs of more devolved local government capable of providing responsive and accountable service design and delivery.

Lastly we explore the measures that would be necessary to make these changes revenue neutral by adjusting the Personal Income Tax Allowance - see Paying for Basic Services on following page.

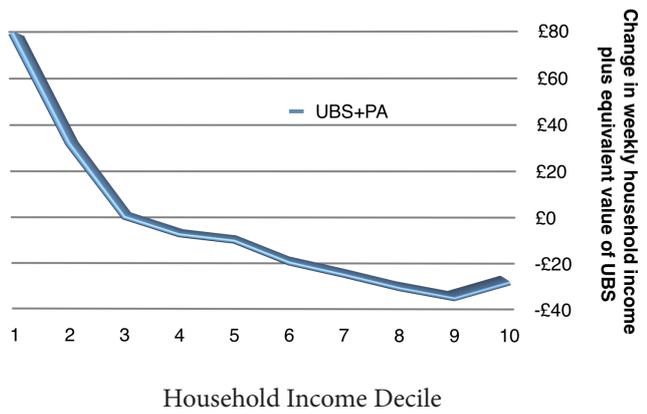
<b>UBS + UBI</b>	<b>UBS</b>	<b>Local Democracy</b>	<b>Revenue Neutral Adjustment</b>	<b>Net Effect</b>	<b>+ UBI</b>	<b>Net - Revenue Neutral Adjustment</b>
<b>Definition</b>	Shelter, Food, Transport & Information as above.	650 Local Assemblies with 25 members each (@ £100k) and 50 staff (@ £21.3k)	Personal Allowance reduced to £4,300	£/week	£20/week taxed, replacing Child Benefit reducing JSA, pensions and disability	Personal Allowance reduced to £0
<b>Cost</b>	£42.16 Bn	£3.0 Bn	Reduce PA by £7,200		£44.5 Bn	Reduce PA by £4,300
<b>D1</b>	£83.23 / week		- £7.27 / week	+ £75.96		+ £3.13 / week
<b>D1 user</b>	£126.46 / week		- £7.27 / week	+ £119.19		
<b>Average Taxpayer D5-D10</b>	£20.21 / week		- £40.63 / week	-£20.42		- £1.64 / week

# Exploring UBS Macro Fiscal Effects

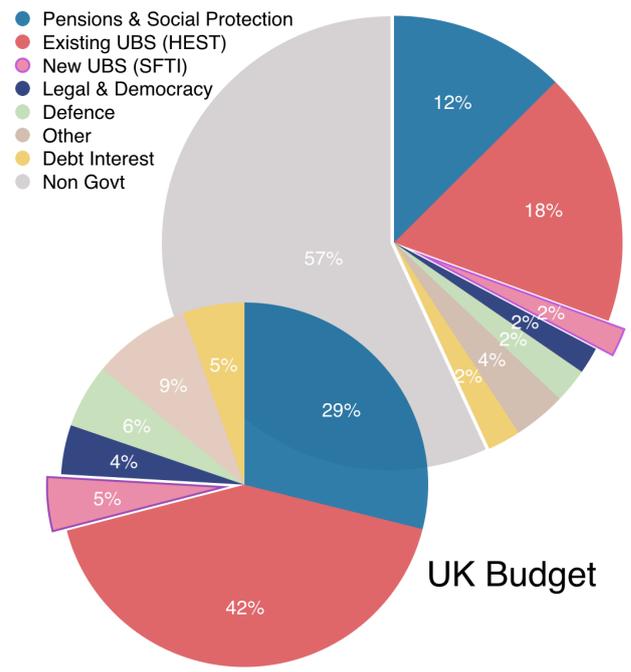
The transformative effects of UBS are accessible with relatively minor changes to the fiscal structure of the UK economy. Additional UBS spending (and revenues) are just 2.3% of GDP, or 5% of existing budgets.

The charts on this page consolidate UK Government accounts for 2017/18 to show existing spending and revenues with the additional spending and revenues related to the UBS enhancements we propose.

Our proposal for a revenue neutral expansion of UBS using a reduction in the Personal Allowance spreads the cost across the income deciles while remaining very progressive - delivering 13% average increases in after tax incomes for the lowest paid 30% of the population, and requiring an average 3% increase in contribution from the highest paid 70% of households.

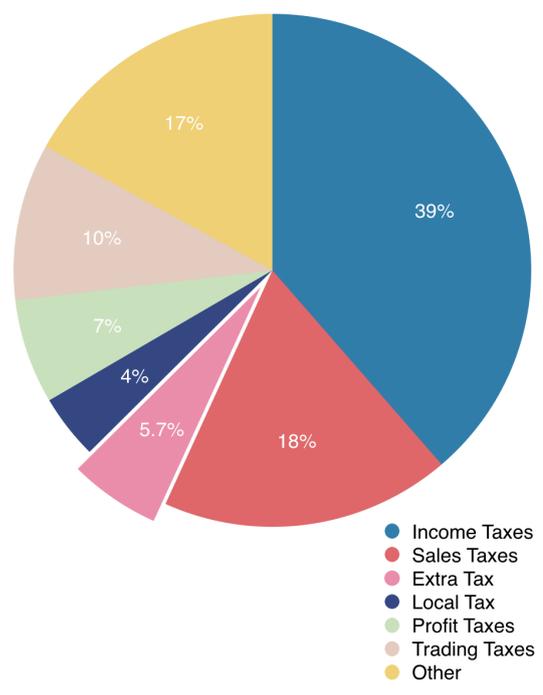


## UK Spending (43% GDP)



UK Budget

## UK Revenues (40% GDP)



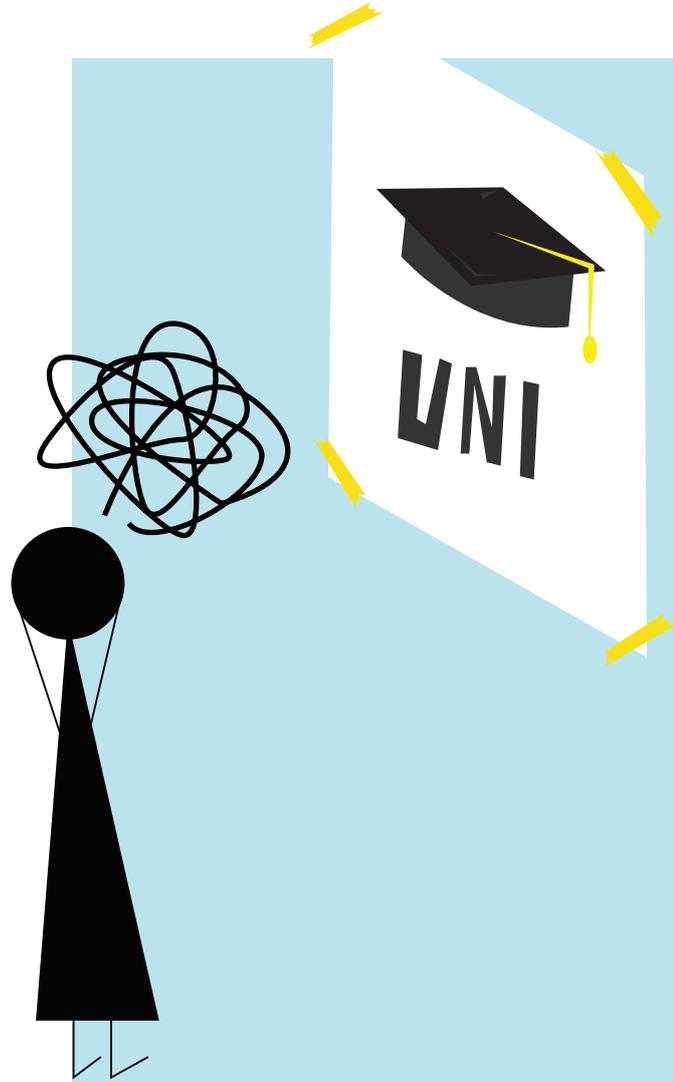
Any increase in taxation and spending needs to be justified, and the reasons why UBS justify these changes are threefold:

- the increased flexibility in labour markets delivers value across the economy, stimulating new activity and increasing the size of the “pie”
- costs are restrained over the long term through a combination of greater efficiency and the “social wage” effect on labour rates
- sustainability limits to future fiscal, social and environmental activity are more broadly accepted by virtue of the increased social cohesion that the UBS enable

Universal Basic Services | JULY 2017

# Discussion Paper

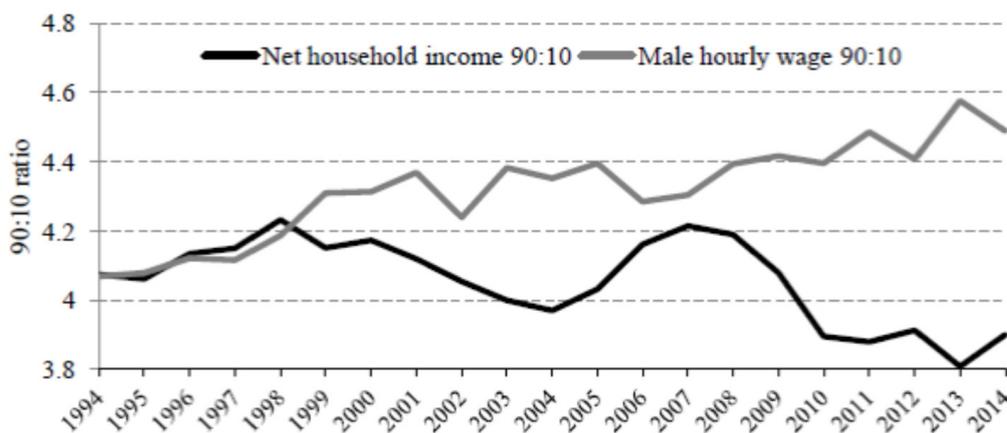
By Professor Jonathan Portes



## 1. Introduction and context

There has been a sharp rise in earnings inequality in the US and UK, and to a lesser extent in other developed countries, over the last 30 years.

Figure 4. 90:10 ratio for male hourly wages and net household income 1994 to 2014



[Source: Belfield, Chris et al, *Two decades of income inequality in Britain: the role of wages, household earnings and redistribution*, IFS Working Paper, January 2017]

The general consensus amongst economists is that the primary driver has been technological change, although a number of other forces are also at work:

- Trade. Trade liberalisation and the adoption of market-oriented, outward-looking economic policies by many developing countries - in particular, but not exclusively, China - led to very rapid growth in world trade before the 2008 financial crisis. In conventional models of international trade, this might have been expected to reduce earnings and/or employment for workers in industries that competed with imports from such countries. This could increase inequality if the wages in these sectors were lower than average. In practice, the skilled manufacturing workers who were most likely to lose out were not necessarily low paid, but were concentrated in certain geographical areas, so regional inequalities may have been aggravated;
- Immigration flows globally have risen, with sharp rises in flows to the UK, US and some (but not all) European countries. As with trade, migration flows might reduce earnings and/or employment for native workers most exposed to competition from new migrants. However, the empirical literature in the UK does not suggest that immigration has had a major impact on wages or on wage inequality
- Labour market deregulation and the fall in trade union membership. Trade union membership has fallen in most industrialised countries, largely in parallel with the decline of manufacturing industry. In the UK and US, trade unions are by and large now only a significant presence in the wider public sector, with low and falling levels of membership in the private sector.

Nevertheless, most empirical evidence suggests that technological developments are more important than any of these factors. Very rapid growth in manufacturing productivity means that even though, despite trade, manufacturing output has not shrunk much, far fewer people (in practice, far fewer men) are employed in manufacturing. Technological change has - thus far - favoured those who have skills (generally analytic and cognitive skills) that are complementary to new, ICT-enabled technologies, while disadvantaging those whose skills are relatively easy to automate. The result has been job creation and rising wages at the top end of the income scale accompanied by job creation and falling or stagnant wages for lower and lower-middle income workers, with fewer middle-income/ "middle-class" (in the US terminology) jobs.

This does not by any means mean that trade and other factors are irrelevant, because there are important linkages. Technology drives trade patterns, while labour market structures and regulation are influenced by underlying economic forces. Recent work suggests that the impact of the decline in manufacturing resulting, at least in part, from trade, had very persistent and long-lasting impacts in the areas of the US most affected; this is consistent with casual observation in the UK.

In the 1980s, the initial response to these trends by broadly free-market, conservative governments in the UK and US was one of benign (or sometimes malign) neglect, and inequality rose accordingly. However, progressive governments which came to power in the 1990s were presented with a dilemma; like their predecessors, they espoused a broadly free-market approach to economic policy, and a positive attitude to globalisation, including both trade and migration. At the same time, they attached a much higher value to equity and social cohesion than their 1980s predecessors. Based on the view that, as set out above, the primary driver of increasing inequality was technology and in particular the increasing return to skills, the favoured policy response was a combination of strategies designed to a) redistribute the gains from economic growth via the tax and benefit system and b) make the skill distribution more equal via the education system.

However, this strategy had only limited success. While it did (especially in the UK) succeed in mitigating any further rise in income inequality, earnings inequality continued to rise, despite some modest improvements in education outcomes, with particularly large gains in the top 1-2 % of the earnings distribution. At the same time, there was a significant rise in regional disparities, in the UK and elsewhere, as many areas that had been reliant on manufacturing and heavy industry found it difficult to replace skilled jobs that were lost, while at the same time high productivity service industries grew quickly in London and the greater South-East.

Moreover, in the aftermath of the 2008-09 financial crisis, this strategy appears to have run its course. Political support in the UK for redistribution via the tax and benefit system began to fall around the turn of the millennium, and reached a low point just after the 2008-09 crisis. Since then it has rebounded a little but remains relatively low: it seems likely that it was this lack of political support for relatively high levels of redistribution which made the various regressive changes to the system implemented since 2010 politically sustainable.

## 2. New challenges

Looking forward, some of the existing pressures on UK workers are likely to intensify, while new challenges are emerging:

- The UK has long had a “productivity problem”, with output per hour considerably lower than in the US, France or Germany. Over the quarter century before the financial crisis, some progress was made towards closing this gap, with productivity growing at approximately 2 percent a year. However, since the crisis, productivity growth has been very slow in almost all developed economies, but particularly weak in the UK (and Italy) despite the UK’s relatively good economic performance overall. While in previous recoveries the UK has usually made up for lost ground relatively quickly, in this one productivity has consistently failed to recover to pre-crisis trends (let alone to the levels that would have been implied by pre-crisis trends).
  - Low productivity growth in turn means that real wage growth has been very subdued, even during the recovery, with real wages still perhaps 15% below the level implied by pre-crisis trends. While wages have begun to grow over the last two years - albeit slowly by the standards of previous recoveries - the likely rise in inflation over the next year means that even this may be short-lived.
  - While it is very difficult to measure, there is considerable evidence of the growth of “precarious” work; a term covering a variety of (not mutually exclusive) phenomena, including zero-hours contracts, the growth of freelancing/consultancy, relatively low-waged and/or artificial self-employment and some aspects of the “gig economy”. These phenomena may have contributed to lower wages; at the same time, they may also account for the UK’s very good employment performance over the last decade.
  - The increasing vulnerability of (some) jobs to automation. The continued rapid advance of ICT will certainly reshape the labour market, although it is difficult ex ante to predict precisely what jobs will be most vulnerable. However, developments such as driverless cars, drones and the development of “intelligent” systems that can deal with at least some tasks currently undertaken by humans clearly have the potential to threaten occupations which currently account for significant proportions of employment.
- At first sight, it seems difficult to reconcile continued low productivity and high employment in the UK with the threat of automation - clearly the robots are not (yet) taking all our jobs.

There are a number of hypotheses that might account for this: for example, we might still be a transitional phase, where the negative effects of automation on overall employment levels have not yet occurred, with labour market flexibility ensuring that employment remains high during the transition period. Or it may be that automation simply functions to displace workers from one type of low-skilled employment to another, resulting in increased insecurity without any gain in wages or productivity. But in any case, the following appear to be likely for at least the medium term:

- Continued or increased high levels of low-waged, low-skilled employment; accompanied by low levels of job security and career development;
- Some risk of more widespread job losses; but in any case continued levels of “churn” for those in low-skilled employment; and potential vulnerability of medium/high skilled workers in some sectors.
- Continued high levels of earnings inequality. To the extent that technology/automation does increase overall output per capita and/or productivity, the returns are likely to go disproportionately to those whose inputs are relatively scarce and/or have the labour market power to capture them. This is likely to mean workers with scarce technical or analytic skills, owners/managers/entrepreneurs in new and dynamic firms, shareholders of such firms, and senior managers/executives in large firms.
- This in turn is likely to make it steadily more difficult to finance the welfare state, and public services more broadly, on the current model, since the state will become steadily more dependent on tax revenues from a relatively small proportion of the population with high earnings (a phenomenon which is already visible in the UK tax system) who may become more reluctant to finance a system which becomes more redistributive and more easily able to avoid or evade taxation.
- Demographic pressures, and in particular the impact of population ageing, will also affect both the labour market and the financing of the welfare state. To the extent care is provided by the state, relatively unskilled labour will still be required (currently social care provision is under pressure from lack of funding, upward pressure on wages from increases in the minimum wage, and restrictions on immigration); to the extent it is provided by family members, this will increase the need for workers to have greater control over working patterns.

It is worth noting that this is in some sense a “Marxist” vision of the economy and labour market - with the modification that the returns from the dynamic innovation promoted by post-industrial capitalism go less to the owners of physical capital and more to those who either have intellectual capital or ownership rights in firms which own the products of such capital.

The political consequences of all these developments, taken together do not appear likely to be benign, as the vote for Brexit, the election of Donald Trump, and the rise of various nationalist/populist parties in other European countries demonstrates. Instead of leading to greater support for redistributive policies at a national level or measures to reform or rebalance labour markets, the primary reaction so far has been to blame these developments on external forces (immigrants, trade, the EU, etc)

### 3. Possible responses:

The prognosis sketched out above is obviously an unattractive one. What then are the possible policy responses?

- **Accommodation, or “back to the 1980s”**; that is, allow inequality to grow, restrain the growth in benefit expenditure/public spending as far as possible, and maintain employment through tightening welfare conditionality and continuing with the current model of a “flexible” but insecure labour market. This would lead, as in the 1980s, to widening inequality and poverty. As in the 1980s, “benign neglect” is (at least from anything other than an extreme free-market perspective) unlikely to lead to acceptable outcomes;
- **“Back to the 2000s”**: this would entail a renewed focus on educational attainment of the least well off; a return to the active redistribution policies of the 2000s (tax credits, etc), within the framework of the current tax and benefit system; and an attempt to revitalise support for state-funded public services. The evidence of the 2000s suggests that this might help mitigate rising income inequality, but may run up against diminishing returns, and is of questionable political saleability.
- **Basic income**. The idea of a “basic” or “citizens” income is an old idea with new traction (often associated with Milton Friedman’s “negative income tax”). Under the simplest and most radical versions all citizens would be paid an unconditional basic income, regardless of work status. All income would be taxed, either on a flat rate basis or, as now, on a progressive basis. Proponents of basic income argue that it has the potential to address a number of the issues set out above:
  - o It could both simplify and improve work incentives for lower paid workers, by removing the current complex interactions of benefits, tax credits and taxes, and replacing them with a single tax rate;
  - o By removing the current work-related conditionality attached to unemployment-related benefits, it would shift the balance of power in the labour market to workers (especially the low skilled), enabling such workers to work more flexibly (but with the flexibility in the hands of the worker not the employer) and to take more risks (such as starting a new business or investing in training).

However, there are also significant potential issues with the basic income approach;

- while basic income can smooth work incentives, it cannot get over the tradeoffs inherent in any tax and benefit system; it is only possible to improve work incentives on average if the poorest are made worse off, while if the poorest are broadly protected than any changes mean that some people will face worse incentives to work. The simplest possible version of the basic income approach, as described above, would improve work incentives for the poor, but (at most plausible tax rates) make those without work poorer; and would benefit the very rich. Alternative versions which attempt to avoid these impacts would require, effectively, significant increases in taxes on the better off;
- basic income does not directly address the two most expensive and problematic aspects of the current UK welfare system; disability and incapacity related benefits and help with housing costs. In particular, while basic income eliminates work-related conditionality, it is by definition impossible to have a system of disability-related benefits that do not incorporate some form of test to determine disability status. Existing proposals for a UK citizen’s income avoid this issue

by suggesting preserving broadly the current system; but that means much of the hoped-for gains from simplification are ruled out ex ante;

- basic income is very expensive to implement as anything bigger than a relatively small payment, certainly insufficient to provide even basic subsistence with the current configuration of the welfare system. For example, a income paid to all UK citizens (including children) at the current Jobseekers Allowance level of £73.10 would cost just under £250bn per year - around 13% of total UK Gross Domestic Product, or 31% of current UK budget. The more modest and realistic scheme modelled by Howard Reed of Landman Economics for the Joseph Rowntree Foundation, which includes a payment of £60 per week for each adult over 25, would have a net cost of about £140 billion. However, as noted above, this would leave the current system of means-tested benefits largely untouched.

More fundamentally, basic income raises a number of philosophical and political issues about intrinsic value of work, or purposeful activity more broadly. There is very strong evidence that individuals' connection to the labour market is important not just for income but also for well-being more generally, and for a variety of longer-term outcomes. For the reasons above, we argue that while some version of a basic income may be a useful complement to ambitious reforms of the welfare system, expecting basic income on its own to be “the answer” is neither realistic nor desirable.

## 4. Universal basic services

In this paper we outline an alternative approach - universal basic services (UBS). This is related to, but quite distinct from, basic income. UBS would build on the existing system of state provision of some services, but extend it; under UBS a basket of basic services would be financed by taxation, replacing in part some cash benefits. The services themselves might be provided publicly, by private companies, or by the voluntary sector. Ultimately, the broad objective of UBS would be to extend the public provision of services as far as possible to enable individuals to live at a basic standard at significantly less direct financial cost: covering not only healthcare and school-age education needs as at present, but also transport, information access, and eventually shelter and food, all of which are generally considered essential to full participation in a modern developed economy.

There are a number of different and overlapping rationales for state provision of services:

- Externalities and/or spillovers; that is, that the benefits to society are greater than to the individual consumer. This potentially applies to a wide range of services, from public transport (where use of public transport may reduce congestion or pollution) to child vaccination (which makes onward transmission of disease less probable as well as benefiting the individual child vaccinated)
- Economies of scale or scope. Some services, particularly those that are most efficiently provided through networks, have large economies of scale or scope that mean that they are “natural monopolies” in whole or in part. Historically, this led to state provision, to maximise such efficiencies, to ensure equitable access and to prevent the exploitation of monopoly power, although in recent years many such industries have been privatised, with government regulation rather than direct state ownership.
- Imperfect information, moral hazard, or myopic decision making. Information failures and asymmetries are pervasive in, for example, healthcare: for this reason in most countries health care is to a greater or lesser extent either provided by the state or by heavily regulated, often non-profit providers with a large element of state finance;

- Common culture, citizenship and values. These considerations are more amorphous, but underpin the rationale for state financing of the arts, and the provision of free or subsidised cultural events; or of state broadcasting like the BBC.

For some services more than one of the above may apply. For example, free state provision of universal compulsory education is sometimes justified by reference to externalities (the economy as a whole, and hence the population as a whole, suffer if a significant number of people are not properly educated); sometimes with respect to myopic decision making or asymmetric incentives (parents might not act in the long-term best interests of their children); and sometimes by reference to the perceived need to instil common values.

More broadly, ensuring that every citizen has access to a basket of basic services that enables them to participate in society is consistent with a “capabilities” approach to inequality; that is, the role of the state is to ensure an equitable distribution of not (just) money but opportunity to participate and contribute to society. For that to be meaningful there are likely to be certain services everyone should be able to access. In this model poverty is not directly a matter of relative (or absolute) income but of access to opportunities, the prerequisites for which will change over time, and ensuring such access is the responsibility of the state.

In recent decades, there has been a move away from the provision of universal services at free or low cost towards “targeting”, as this was seen as the most efficient use of constrained public resources. Prescription charges were introduced by Labour relatively soon after the introduction of the NHS, and free milk for young children was withdrawn by Mrs Thatcher as Education Secretary. Under Thatcher as Prime Minister, prices were raised very substantially for prescriptions, school meals, public transport, with (sometimes real, sometimes notional) “compensation” for those on benefits being given via the benefit system. However, during the last election, it was notable that universalism made something of a comeback - proposals in the Conservative manifesto to end the universal provision of free school meals for younger children were highly unpopular, as was the so-called “dementia” tax, while Labour’s proposals to cut tuition fees for higher education appears to have attracted significant support. A move to UBS - representing a swing back from the view that the redistributive aspects of the welfare state should largely operate through targeted cash payments - might be more in tune with the public mood than at any time in recent years.

The potential advantages of such an approach, relative to the current position, would be:

- UBS, like basic income, has the potential to improve work incentives, especially for lower paid workers. It reduces the cash income required (through the benefit system, or from savings) for individuals or families to survive at an acceptable standard of living if they have little or no income from labour; and if services are provided to all regardless of work status, then there is no disincentive effect from the loss of access as people move into work or increase their earnings;
- UBS, if financed by a tax system that is (as the current UK system is) broadly proportional to income, is likely to be progressive; while not all service provision benefits those at the bottom most (in absolute terms), the net impact if financed by progressive taxation will almost always be positive;
- Moreover, to the extent that UBS increases demand, the impact will be particularly well targeted (rich people do not use foodbanks, nor will they respond to the provision of, say, free public transport as much as poor people), yet at the same time without the adverse impact on work incentives of targeted cash benefits;

- Unlike a basic income, UBS does not necessarily require a wholesale reshaping of the tax and benefit system; it could be introduced incrementally, as an alternative to increases in cash benefits, while keeping the broad structure of the current tax and benefit system broadly unchanged.
- Some basic services - for example transport and communications - are complementary to work or work search (or other purposeful activity). This means that the provision of such services can potentially improve employment prospects and/or improve work incentives while at the same time being progressive in their economic incidence;
- Related to this, and more broadly, while a basic income arguably does little or nothing to build social capital or to reverse what some see as social atomisation, UBS could be “pro-social”; publicly provided services are a visible collective good, and both providing them and consuming them is at least in part a social activity;
- While there is ample evidence that most people regard poverty as a relative phenomenon - you don't have to be starving to be poor in the UK - the relative income poverty measure is difficult to communicate and does not necessarily chime with public views either, while a measure based on access to (perceived) “necessities” (as with the JRF's Minimum Income Standards) is easier to communicate. UBS fits much more closely with this than either basic income or tax credits/Universal Credit. It also can be presented in part as an attempt by the state to (partially) equalise opportunities or capabilities to participate in society, rather than outcomes.
- UBS - particularly if conditional on contribution or citizenship - is aligned more closely with public attitudes to citizens' rights and responsibilities, and hence are more likely to be politically sustainable over the medium term.

An important aspect of UBS would be the opportunity it could give to rejuvenate local democracy and local involvement in the design, financing and delivery of local services. Almost all public services are, necessarily, delivered locally, but there is an inevitable tension between national standards and local autonomy and control. While with some existing universal services - especially health - there is a very strong public view that quality of service and access to services should be broadly uniform, that need not be the case for all services. Responsive, effective and accountable local government - with financial autonomy - will be necessary for the practical implementation of UBS.

UBS need not be inconsistent, and could indeed be complementary, with a basic income introduced at a modest level, as modelled in the Technical Analysis II by Howard Reed and Andrew Percy attached.

## 5. UBS: some illustrations

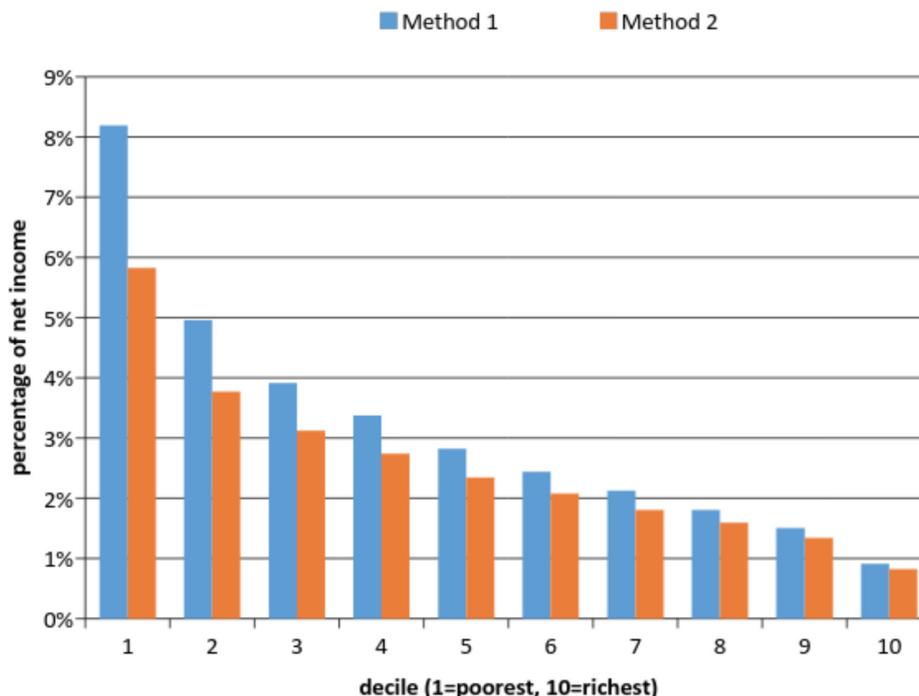
What would a move towards the provision of UBS look like in practice? Two technical analyses have been prepared by Howard Reed, (Landman Economics), working with Andrew Percy (IGP). The first models detailed costs and the beneficiaries of two services that might be argued to be good candidates for a UBS approach: communications (including broadband, a basic phone package, and the TV license) and local public transport services (including bus transport, and, where relevant other local transport services (tube, tram, DLR, local overground trains, etc)).

More ambitiously, in the second analysis, Reed and Percy model more ambitious policy options which would represent a further extension of the UBS approach. These include a major programme to provide new social housing; the direct provision of free meals to those current experiencing food insecurity; and an individual basic income “supplement” of £20 per week.

The key results are from the first analysis are:

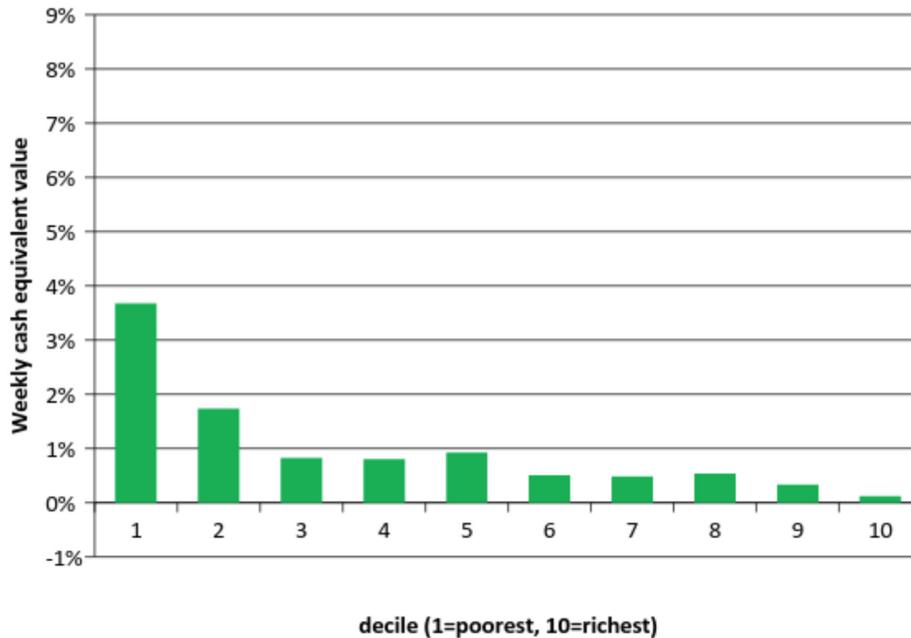
- Providing free communication services might cost in the region of £15-20 billion, or about 1 percent of GDP. The benefits would be spread fairly uniformly over the population, meaning that if financed by taxation the net impact would be progressive (if financed by lump-sum taxes or equivalent changes to the tax and benefit system, the impact would be broadly neutral)

Value of free information services for households in the 2014 LCF as percentage of net income



- Providing free local transport services might cost in the region of £5-10 billion, with the wide range reflecting uncertainty as to how much demand would be likely to increase. Local transport is quite progressive in its impact, so if financed by taxation the net impact would be strongly progressive (so even if financed in part by reductions in benefits, it could still be broadly progressive)

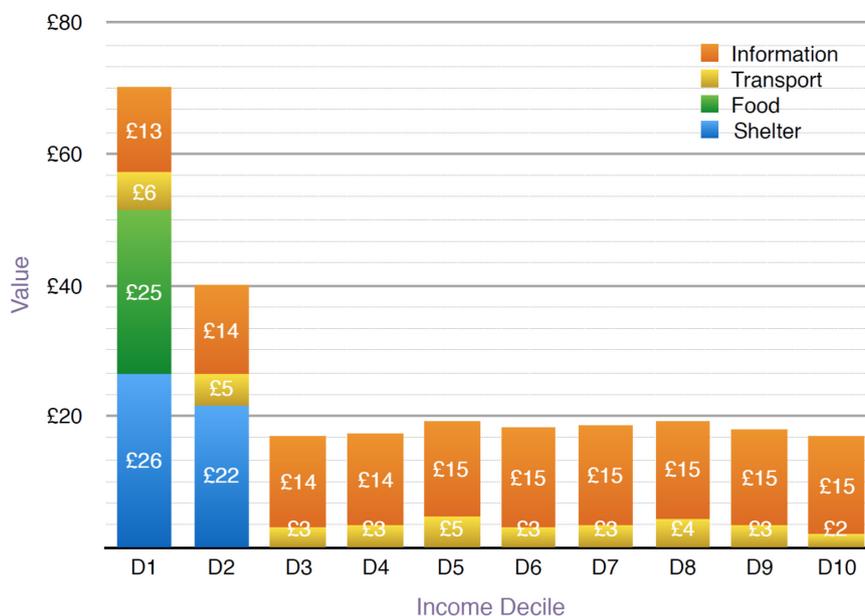
Value of free bus services for working age households in the 2014 LCF as percentage of net income



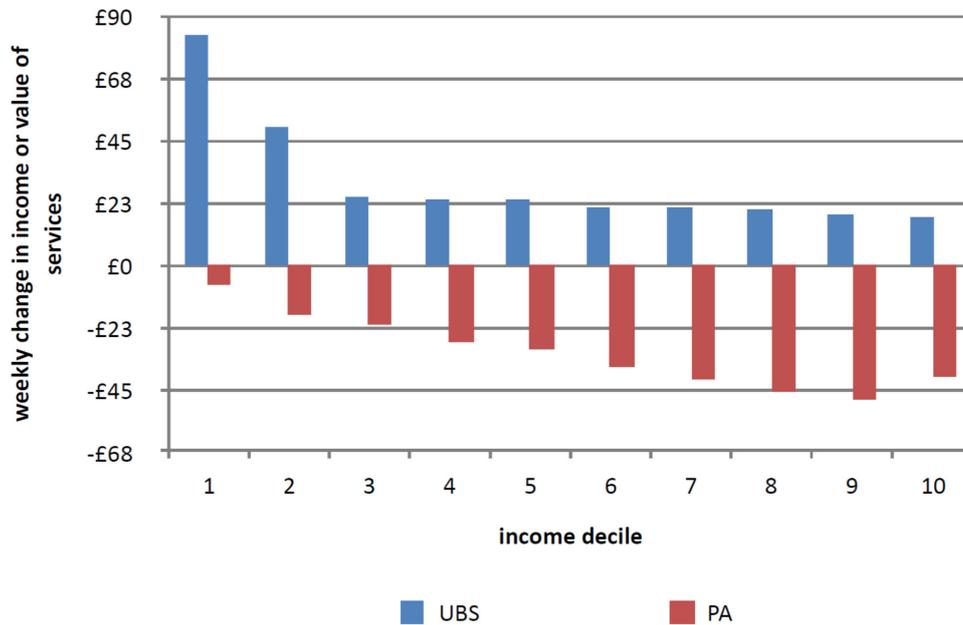
These illustrative examples show that - contrary to some assumptions - the provision of services can in fact be relatively well targeted, without necessarily having a negative impact on work incentives. But it is important to note that these are purely static distributional impacts: they take no account of the wider benefits that are posited above (but are difficult to model) such as the impact on labour supply or broader measures of social capital.

The second analysis is more illustrative in nature; in particular, the options modelled would not be “universal” in the sense of providing free housing to all, or even to all those who would take up an offer of free, basic social housing; similarly the food program modelled is one that would end “food insecurity” rather than provide free food to all or even to all those on low incomes. The objective of this analysis is rather to show the likely broad impacts and distributional consequences of a substantial increase in state provision of services in these areas.

On the assumption that take up of these additional services would be overwhelming concentrated among the lower deciles of the income distribution, the benefits to the least well-off would be very large:



Obviously the costs of provision would have to be financed, presumably from taxation. Reed models the overall impact if the package were to be financed by a reduction in the personal allowance; to raise £45 billion, roughly equivalent to the modelled cost, would require the personal allowance to be reduced from £11,500 to £4,300. The overall distributional impact of the combined, revenue-neutral package is shown below. Unsurprisingly, given the assumed profile of service users, the impact would be extremely progressive, as the chart shows:



## 6. Questions/issues for discussion

In our view the above analysis, combined with the illustrative modelling, illustrates the potential for a UBS-approach to be feasible and progressive and to address some of the key medium to long-term social challenges discussed above. Of course, this is very much preliminary work.

To advance this debate further, a number of key questions are worth considering:

- a)** What are likely labour market impacts of greater provision of basic services (including not just static impacts on work incentives, but structural changes to labour supply behaviour and labour markets)
- b)** How would access to UBS be regulated or controlled? Would it be restricted to citizens/residents? If so, how would this be monitored and policed?
- c)** To what extent should decisions on the provision of services be taken at national or local level? What are the appropriate mechanisms for democratic control?
- d)** Where is the potential greatest for positive externalities and/or spillovers (that is, what forms of pro-social behaviour do we want to encourage) from an economic, social or environmental perspective?
- e)** Is UBS one “big idea” (as basic income is often presented) or a series of little ones, to be looked at on a case-by-case basis? Would extending UBS beyond relatively “manageable” services like transport into much wider, more diverse policy areas, like housing or food, be practicable?
- f)** More broadly, what is the appropriate role of cash benefits and work-related conditionality in a 21st welfare state; and what is the role of the state in providing free or low-cost services?



Results and Technical Appendix I | MAY 2017

# Information & Transport

By Howard Reed

## Table of Contents

<b>Part 1: Cost of providing basic services</b>	... 29	<b>Part 3: Distributional analysis of the impact of revenue-neutral packages for the provision of Information and Transport services free at point-of-use, financed by tax increases...</b>	37
1.1 Cost of providing Information services	... 29	3.1 Financing Information services using either tax rate increases or reductions in the Personal Allowance	... 38
1.2 Cost of providing free local transport	... 32	3.2 Financing transport services with an increase in National Insurance contributions	... 39
<b>Part 2: Distributional impact of providing basic services free at point-of-use</b>	... 35		
2.1 Information services	... 35		
2.2 Bus services	... 36		

## Part 1: Cost of providing basic services

### 1.1 Cost of providing information services

In this project it is assumed that "information services" comprise the following three components:

- (a) broadband;
- (b) a basic telephone package;
- (c) the TV licence.

Two different methods have been used to calculate the cost of telecommunications, as explained below. Cost estimates calculated using these methods have also been compared with evidence from the Minimum Income Standards (MIS) research conducted by researchers at the University of Loughborough for the Joseph Rowntree Foundation. countries, over the last 30 years.

#### *Method 1: Analysis of current cost of providing broadband and mobile packages.*

Based on analysis of leading providers (BT, TalkTalk, PlusNet etc), the cost of a basic broadband package appears to be approximately £20 per month, or just above this level. Based on this information, this research has assumed that the cost of a basic broadband package is £5 per week per household.

For mobiles, the cost of a basic mobile package (including basic handset) appears to be around £15 per month based on an analysis of the packages available from leading providers. This research has assumed that the cost of a basic phone and calls package is £3.50 per week per person (so therefore, the value of phone services to each household will vary with the size of the household). Currently it is assumed that each adult receives phone services but children do not. (This assumption can of course be changed in subsequent research so that e.g. older children also receive phone services, if desired).

This means that the cost of telecommunications based on evidence from providers is assumed to be £5 per household per week for broadband, plus £3.50 per adult per week for calls.

#### *Method 2: Analysis of telephone and internet expenditure in the Living Costs and Food Survey (LCF)*

A combined variable for 'expenditure on communications' was constructed using the 2014 Living Costs and Food Survey (LCF) data. The variable combines expenditure on phone calls (including mobiles and landline) and 'internet'.

The percentiles of the distribution of weekly household expenditure in the LCF are as follows (note that the data asks for weeklyised expenditure from the most recent bill rather than just expenditure in the most recent week as that might be zero depending on the billing period):

Table 1. Household communications expenditure, 2014 Living Costs and Food Survey: percentiles of distribution

Percentile	Expenditure (weekly)
5 <sup>th</sup>	£0.00
10 <sup>th</sup>	£4.04
25 <sup>th</sup>	£6.92
<b>Median</b>	<b>£11.77</b>
75 <sup>th</sup>	£18.46
90 <sup>th</sup>	£25.16

*The distributional analysis in Part 2 below uses LCF expenditure on communications up to the median level as a proxy for 'basic' communications services, and assumes that any household with expenditure above the median has median levels of 'basic' expenditure (which we assume to be covered by basic service provision) and then above the median is 'non-basic' expenditure (which isn't covered).*

Average expenditure on information per household by household income decile using the two different methods above

Table 2. Average weekly expenditure on information per household by household income decile

Net household income Decile	Average expenditure, Method 1 (provider-based)	Average expenditure, Method 2 (LCF-based)
1 <sup>st</sup> (poorest)	£13.03	£9.26
2 <sup>nd</sup>	£13.55	£10.30
3 <sup>rd</sup>	£13.92	£11.10
4 <sup>th</sup>	£14.02	£11.39
5 <sup>th</sup>	£14.57	£12.11
6 <sup>th</sup>	£14.99	£12.74
7 <sup>th</sup>	£15.08	£12.84
8 <sup>th</sup>	£14.91	£13.17
9 <sup>th</sup>	£14.80	£13.20
10 <sup>th</sup> (richest)	£14.92	£13.49
All households	£14.38	£11.96

Source: Living Costs and Food Survey, 2014

*Method 2 shows somewhat lower average expenditure per household than Method 1. This is partially down to the fact that not all households have positive expenditure for internet and/or phone calls in the LCF data. This is because not all households make use of the internet (although a majority do), and also while the vast majority of households (around 99%) have some kind of phone, some households are likely to use pay-as-you-go mobiles rather than a permanent contract and so may not show any expenditure on phone calls in LCF.*

## TV licence expenditure

Based on a current TV licence fee of £145.50 per household it is assumed that TV licence fee expenditure is £2.80 per household per week.

*The overall aggregate cost of providing information services free at point-of-use, using each of these methods, is estimated at:*

- £19.9 bn (Method 1);
- £16.5 bn (Method 2).

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## Comparison of cost of communications services with JRF Minimum Income Standards research

The JRF Minimum Income Standards research for 2016<sup>1</sup> includes phone and broadband services in the category of household services (which also includes expenditure on postal services and babysitting, but not childcare, which has its own separate category). Table 3 below shows the MIS for household services for a selection of different household types in 2016. Note that these calculations do not include the cost of the TV licence for each household.

Table 3. Minimum Income Standards for 'Household Services' for four family types, April 2016

	Family type			
	Single adult, working age	Couple, pensioner	Couple, two children (one aged 2-4; one primary school age)	Lone parent, one child (aged 0-1)
<b>Budget for 'household services' (£/week)</b>	2.96	7.75	12.45	17.27

Table 3 shows that the amount for household services for a couple pensioner does not seem particularly out of line with our estimates of information costs using using Methods 1 and 2. The amount for a single working age person is somewhat lower, because in the MIS focus groups it was felt that single working age people could get by without a landline and use a basic data package for internet access through their mobile phone instead. For the purposes of this project, it was felt more appropriate to include landline broadband as part of a universal services offer to all adult individuals. For parents, landline broadband was included in the MIS estimates; the cost of household services for these groups are higher than the estimates in Table 2 of the current report largely because of the inclusion of babysitting costs in the MIS household services calculations.

<sup>1</sup> Davis, Hill, Hirsch and Padley, *A Minimum Income Standard for the UK in 2016*, <https://www.jrf.org.uk/report/minimum-income-standard-uk-2016>

## 1.2 Cost of providing free local transport

### *The definition of 'local transport'*

Two different definitions were used in this analysis:

**Definition 1:** bus transport only

**Definition 2:** bus transport plus other local transport services (tube, tram, DLR, local overground trains, etc)

Definition 2 is, for the most part, only relevant to London and other cities with non-bus local public transport infrastructure.

### *Method 1: Using transport statistics*

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#### Definition 1 (using DfT statistics)

Statistics from the Department for Transport on concessionary travel in England in the year 2015-16<sup>2</sup> show that the Government issued a total of 9.9 million older and disabled travel passes in England in 2015/16. Travel Concession Authorities (TCAs) spent an estimated £1.15 billion on providing statutory and discretionary concessions. This suggests that the cost of a concession is £116.16 per year = £2.25 per person per week (approximately).

To check whether the cost might be greater for working age people than pensioners (because working age people might use the bus more regularly if it were free at point-of-use) this project analysed the frequency of bus use for pensioners and working-age respondents in the National Travel Survey in 2014. Table 4 gives the results from this analysis. Currently, pensioners are more likely to make frequent bus trips than working age adults, and also pensioners are more likely to use the bus at all than working age adults. Of course, it is very likely that working age bus use would increase if bus travel were made free at the point of use for working age adults, but Table 4 at least suggests that the cost of free bus travel per person for working age person is unlikely to be substantially greater than the cost of free bus travel for pensioners (and indeed it could be less expensive per person).

Table 4. Analysis of bus journey frequency in National Travel Survey, 2014

<b>% making bus journeys:</b>	<b>Pensioners</b>	<b>Working age adults</b>
3 or more times a week	21.0	16.4
Once or twice a week	18.1	9.3
Less than once per week, more than twice a month	5.6	4.0
Once or twice a month	10.4	8.3
Less than once a month, more than twice a year	6.4	6.8
Once or twice a year	5.8	7.9
Less than once a year or never	32.7	47.5
Total	100.0	100.0

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<sup>2</sup>[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/560716/concessionary-travel-statistics-year-ending-march-2016.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/560716/concessionary-travel-statistics-year-ending-march-2016.pdf)

## Definition 2 (using London Councils' statistics on the cost of the London Freedom Pass, in aggregate and per user)

Data from London Councils' statistics on Freedom Pass usage<sup>3</sup> show that the total cost of Freedom Pass concessionary fares in London in 2016-17 was £333.9m.

*Additional info from London statistics on the cost of the concessionary freedom pass, in aggregate and per user*

The total cost of the London Freedom Pass per user per week is calculated to be £5.31 per week, which breaks down into £3.83 per week for buses and £1.48 per week for other transport. Table 5 below shows how this amount was calculated.

Table 5. Calculations of cost of London Freedom Pass per user per week

	£m
Total TFL apportionment, 2016-17 tax year	333.9
Of which:	
Bus	241.0
All other LT excl. buses (e.g. tube, tram, DLR, London Overground etc)	92.9
Number of Freedom pass users	1.211 million
Cost per freedom pass user per year:	£
Bus	199.01
Tube etc	76.71
<b>Cost per freedom pass user per week:</b>	<b>£</b>
<b>Buses</b>	<b>3.83</b>
<b>Tube etc</b>	<b>1.48</b>
<b>Total</b>	<b>5.31</b>

<sup>3</sup> <http://www.londoncouncils.gov.uk/services/taxicard/taxi-card-and-freedom-pass-borough-portal/usage-statistics-2016-17>

## Method 2: Living Costs and Food Survey

The Living Costs and Food Survey collects data on expenditure on bus fares, bus fares/tube fares, and rail fares (including season ticket purchases). Table 6 below shows:

- average spending per working-age household across the whole sample;
- average spending per working-age household for households that had any positive expenditure on bus/tube/rail;
- the proportion of households with positive expenditure.

Table 6. Transport expenditure in the Living Costs and Food Survey 2014

	Bus only	Bus & tube combined	Rail fares
Average expenditure per week (all working-age households)	£1.92	£2.75	£4.51
Proportion of working-age households with positive expenditure	19.3%	21.5%	17.6%
Average expenditure per week (households with positive expenditure only)	£9.95	£12.78	£25.61

Table 6 shows that average expenditure per week on bus fares across all working age households in the 2014 LCF is £1.92 per week. This is much lower than average expenditure on train fares. Only just under a fifth of working age households have positive expenditure on buses (we would expect this figure to increase if bus transport were made free at point of use).

Using the data from the Living Costs and Food Survey on average expenditure per week on bus services, the cost of extending free bus transport to non-pensioners is estimated to be approximately £2.0bn, and the cost of extending free bus and tube transport at £2.9bn. However, an alternative calculation based on the cost of the current concessionary bus scheme for pensioners and extending the scheme to the whole population, based on population size, produces an estimate of around £5.2bn. This seems more realistic, given that making bus travel free at point-of-use would certainly lead to an increase in the number of trips undertaken. Extending a more extensive concessionary scheme (along the lines of the London Freedom Pass) to the whole UK population would cost around £12.3 billion, but this is certainly an overestimate (given current levels of transport infrastructure) because most of the UK population outside the major cities does not have access to tube-type or tram-type public transport services.

*Therefore, the calculation of the value of local public transport services to households in this project, it has been decided to use the £5.2bn estimate (for bus services only) at a UK-wide level.*

## Part 2: Distributional impact of providing basic services free at point-of-use

### 2.1 Information services

Figure 1 below shows the value of the cash equivalent of free information services for households in the 2014 Living Costs and Food Survey, classified by household income decile (the households with the lowest equivalised net incomes in decile 1, and then decile 2, and so on... up to the richest households in decile 10).

The cash-equivalent value of information services is higher for richer households than for poorer households on average using valuation Method 2, but the differences are not great. For valuation Method 1 there is a smaller difference between deciles than for Method 1 and the income profile of the value of information services is reasonably flat for the top six deciles using Method 1.

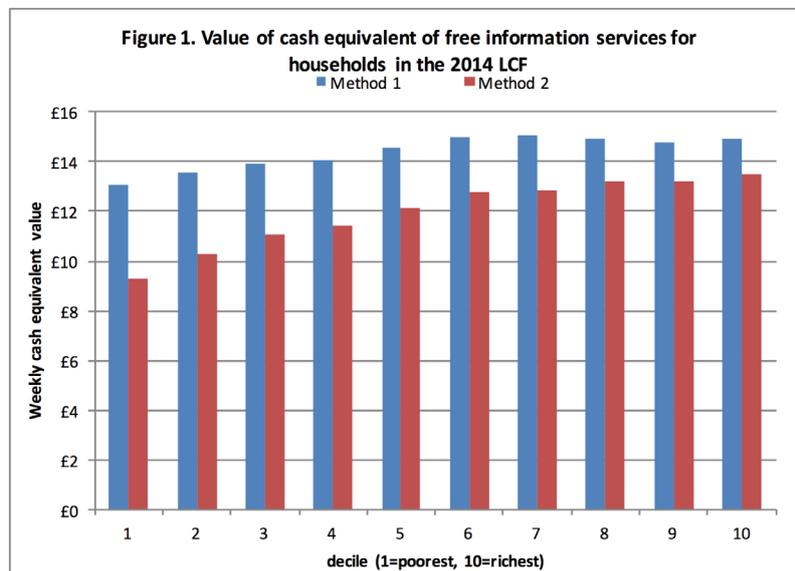
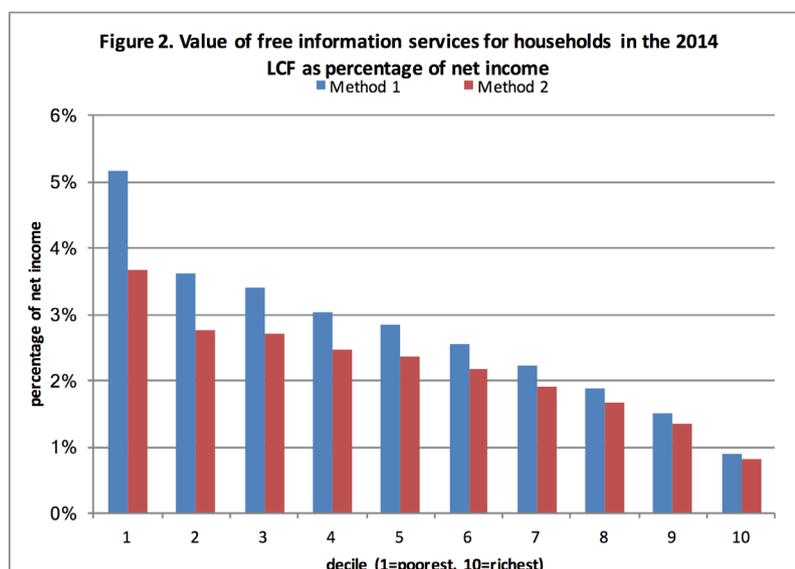


Figure 2 shows the same data but as a percentage of average household net incomes in each decile. Whichever method is used to calculate the value of information services, they are strongly progressive as a proportion of net income (i.e. worth more to poorer households as a proportion of net income than richer households).



## 2.2 Bus services

Figure 3 shows the cash equivalent value of bus services. (This analysis uses the pattern of LCF expenditure on buses for working age households and then scales up the value of this expenditure so that the value of bus services grosses up to £5.2 billion across all households, using the calculation in the previous section).

The pattern of bus use by household income decile is somewhat uneven; this reflects some outliers (i.e. individual households with particularly high expenditure on bus fares).

Figure 3 has been presented using the same vertical axis scale as Figure 1 so that it is easy to compare the value to households of information and bus services across the two graphs.

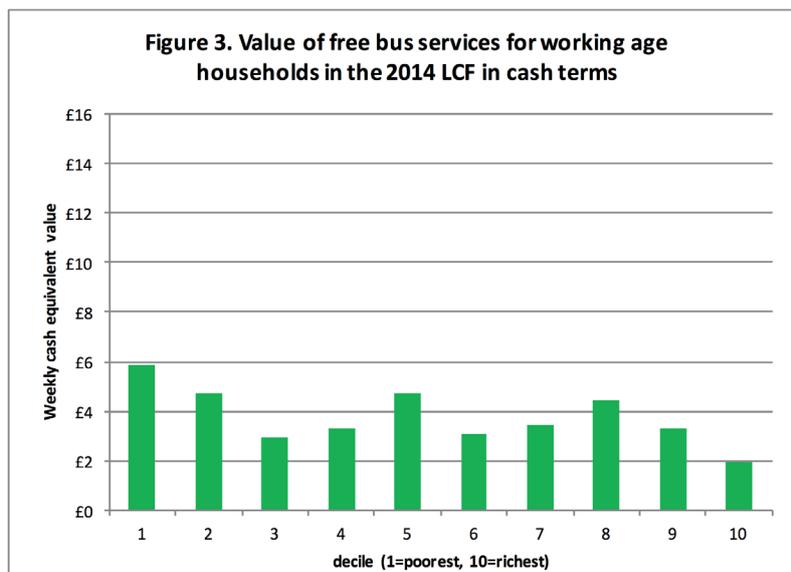
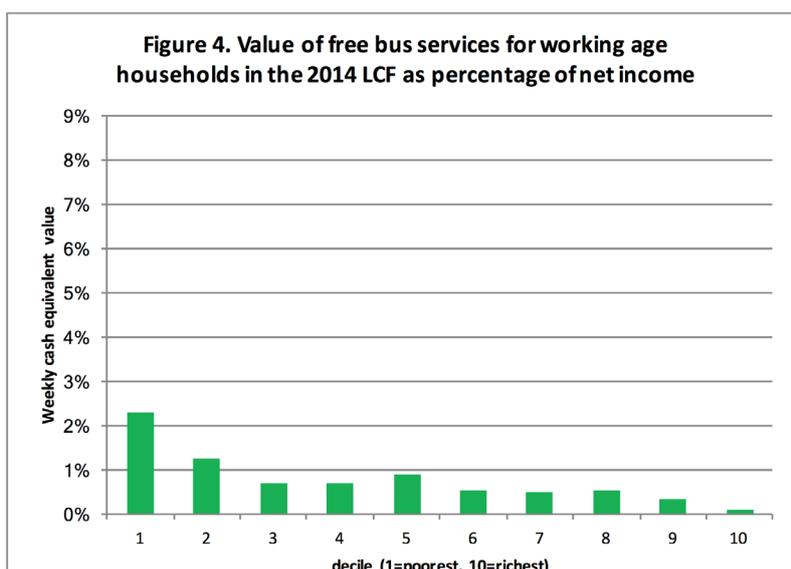


Figure 4 shows the distributional impact of free bus services as a percentage of net incomes (again, the vertical axis is drawn to the same scale as for Figure 2). As with information services, bus services are worth much more as a proportion of net income to poorer households than to richer households.



## Part 3: Distributional analysis of the impact of revenue-neutral packages for the provision of Information and Transport services free at point-of-use, financed by tax increases

### Update - July 2017

Since this Technical Analysis was completed in May we have produced an updated analysis that combines all of the UBS, including Food and Shelter, into a single revenue neutral distributional analysis based on a reduction in the Personal Income Tax Allowance. See attached Technical Analysis II.

### 3.1 Financing Information services using either tax rate increases or reductions in the Personal Allowance

#### A combined VAT/income tax package

This package takes the aggregate value of information services calculated using method 1 above (£19.9bn) and combines provision of these services with tax increases as follows:

- increase of 2 percentage points in the standard rate of VAT, to 22% total (raises £11.5bn according to HMRC ready reckoner)
- increase of 2p in basic rate income tax, to 22% (raises £9bn).

The total sum raised by the tax increases is £21.5bn - more than enough to pay for the service package. Figure 5 shows the average distributional impact of the combined services and tax package in weekly cash terms for each household net income decile. There are average gains from the package in deciles 1 to 6 and average losses for deciles 7 and above.

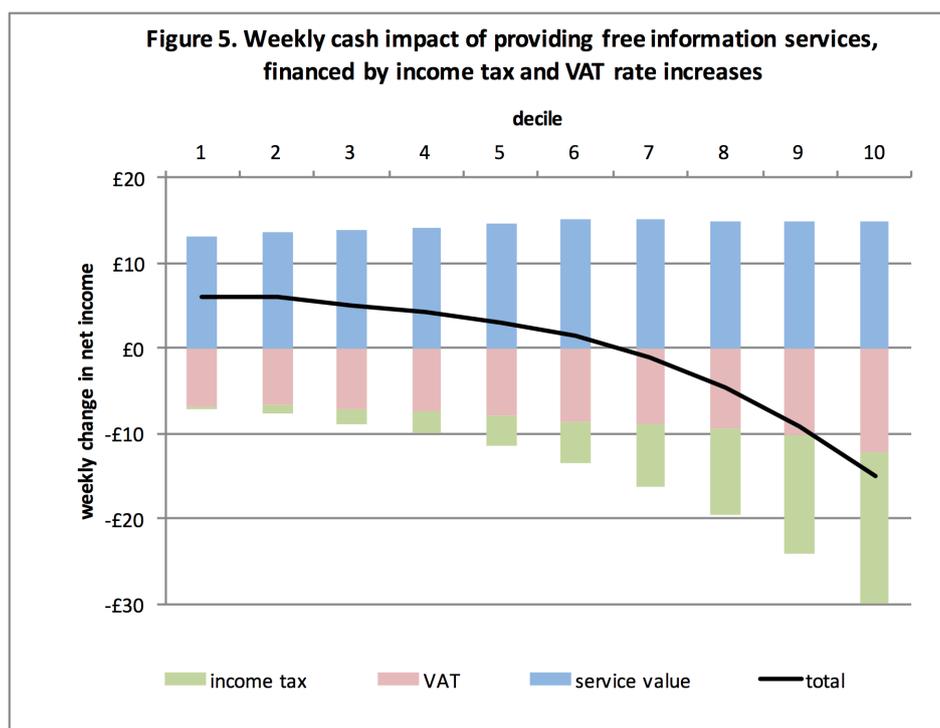
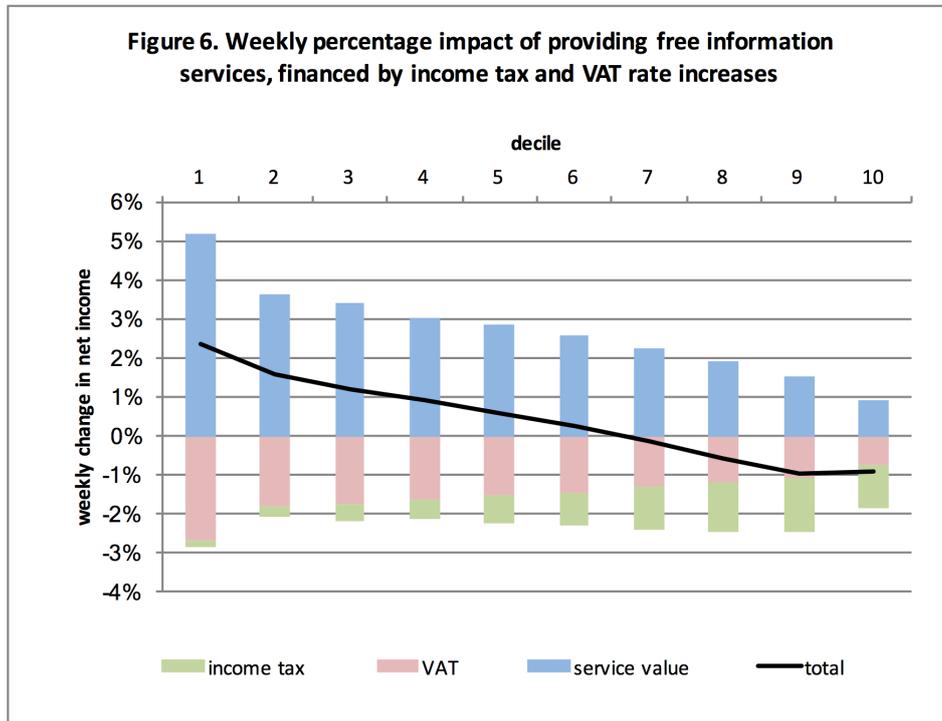
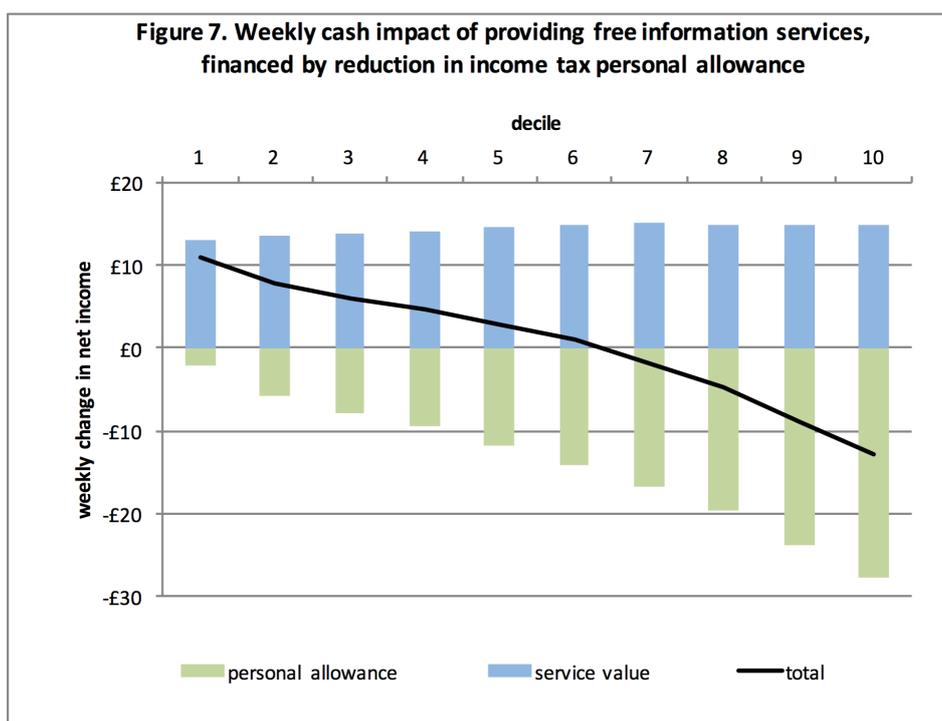


Figure 6 shows the same results but as a percentage of household net income by decile. The results show that the package is strongly progressive. While households in the lowest income decile gain by 3.7% of their net incomes on average, and households in the second decile by 2.2%, households in the top two deciles experience average losses equivalent to 0.7% of their incomes.



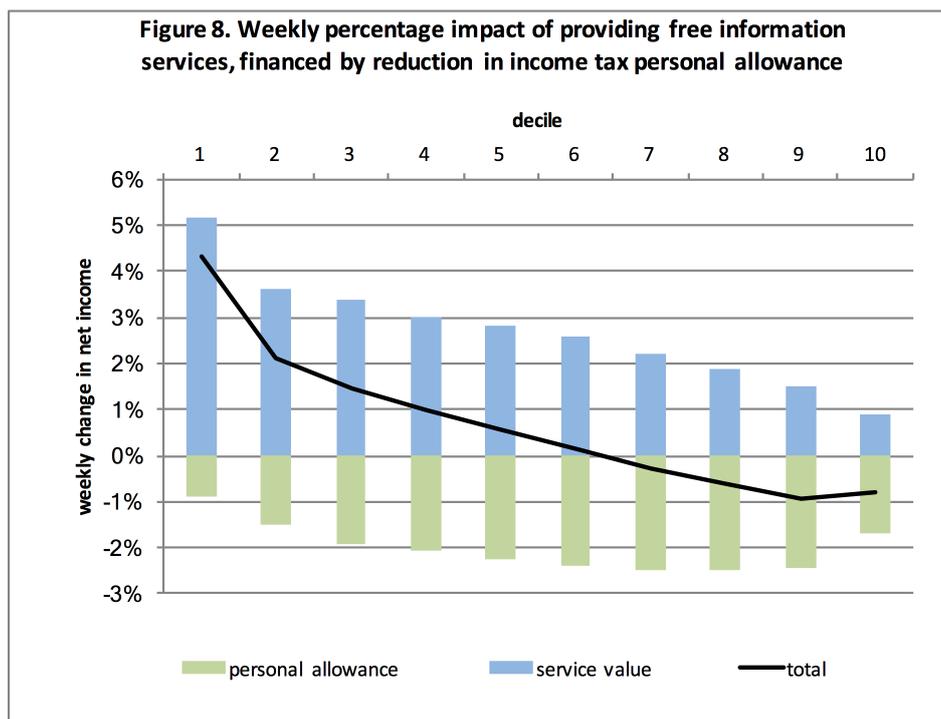
### Reducing the income tax personal allowance

Figures 7 and 8 show the distributional impact of free information services financed by an alternative tax package: reducing the value of the personal allowance for income tax by £2,800, from its 2016-17 value of £11,000 to £8,200. This raises around £20bn, almost precisely offsetting the cost of providing information services free at point-of-use valued using method 1.



As with the VAT/income tax package in Figure 5, Figure 7 shows average gains overall for the bottom six deciles and losses for the top four deciles. The pattern of net impacts is slightly different here, with the change in the cash impact across deciles being more linear than for Figure 5.

Figure 8 shows the distributional impact of financing free information services via a reduction in the personal allowance as a percentage of net incomes by decile. The impact of the package is slightly more progressive at the bottom end of the income distribution with this package than for the income tax/VAT rates package analysed in Figure 6. The lowest income decile gains by around 7% on average here compared with only around 4% in Figure 6.



### 3.2 Financing transport services with an increase in National Insurance contributions

This package takes the aggregate estimate of the cost of extending free bus services across the whole UK population calculated above (£5.2bn) and funds it using an increase of 1 percentage point in employee and self-employed National Insurance contributions across the whole earnings range (including above the upper earnings limit and upper profits limit).

This means that the NICs rates would now be 13% below the UEL and 3% above the UEL for employees, and 10% below the UPL and 3% above the UPL for Class 4 self-employed.

According to the HMRC ready reckoner these combined reforms raise £5.2bn - exactly the same as the cost of extending bus services. Thus, this is a truly revenue-neutral package if the cost and spending estimates are accurate.

Figure 9 shows the impact of the package in cash terms (using the same vertical scale as Figure 5). The average cash impact is positive for deciles 1-5, roughly neutral in deciles 6-8 and negative in the top two deciles.

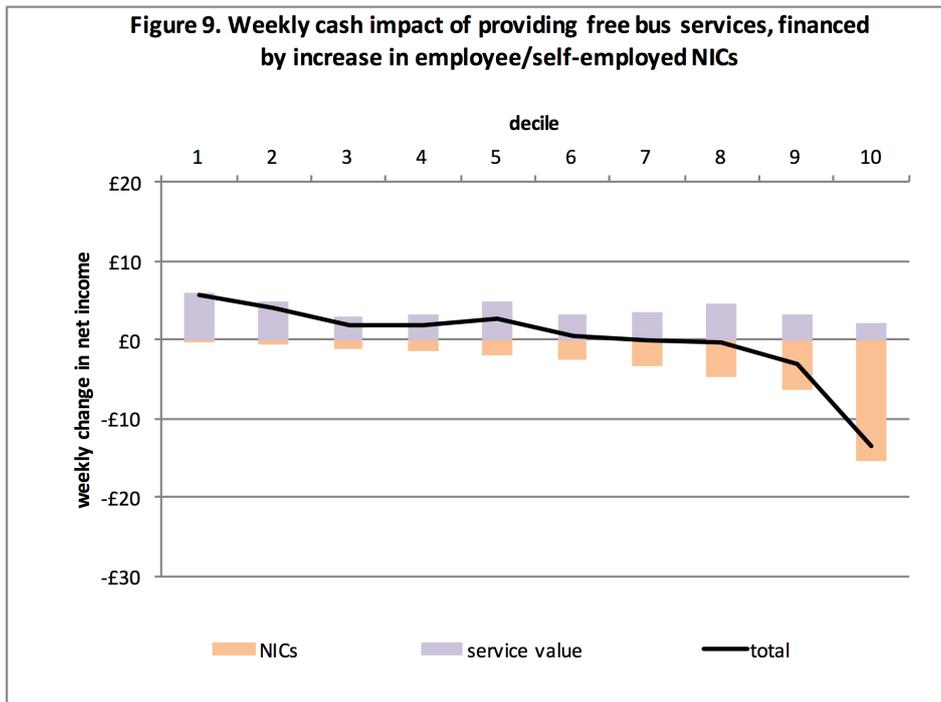
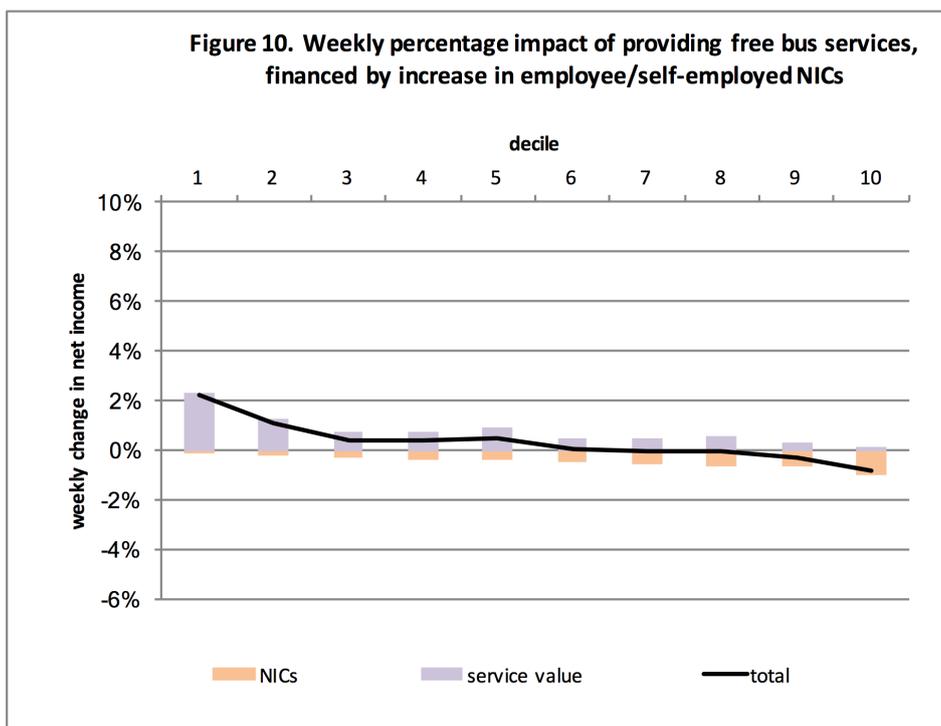


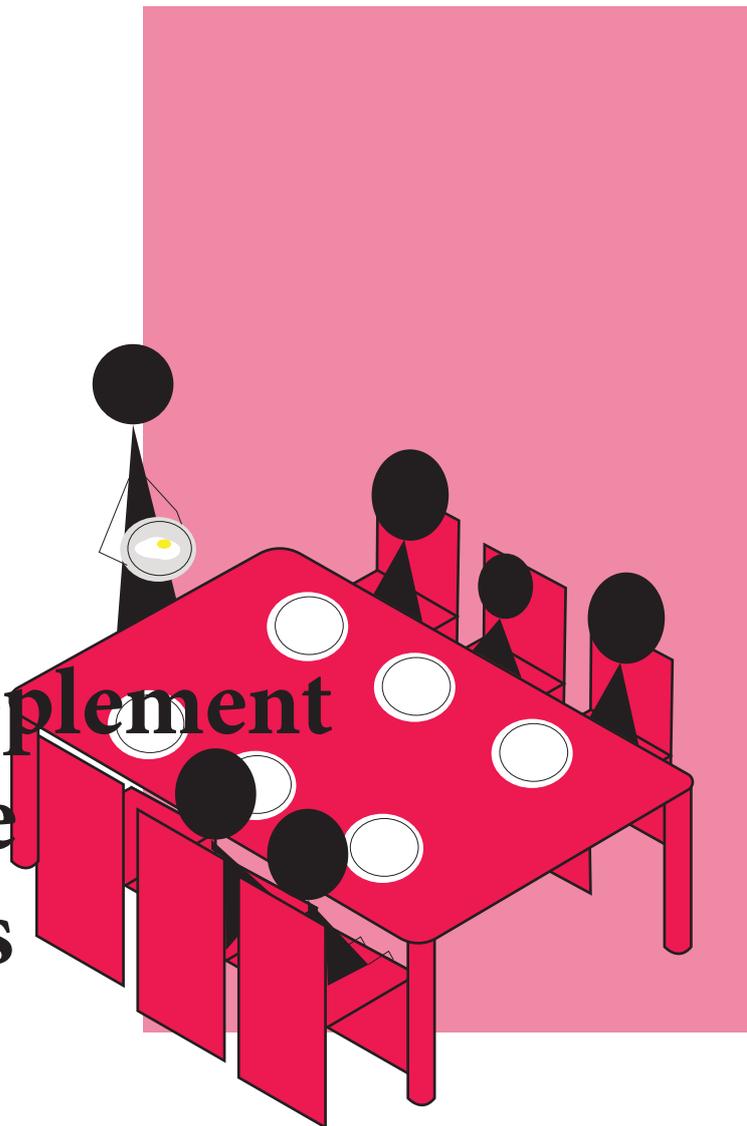
Figure 10 shows the impacts as a percentage of net income. The package is progressive, with particularly large gains in the lowest two deciles.



Technical Appendix II | JULY 2017

# Shelter & Food Basic Income Supplement Local Governance UK Budget effects

By Howard Reed & Andrew Percy



## Table of Contents

<b>Part 1: Cost of Shelter &amp; Food Basic Services</b>	... 41	<b>Part 3: Distributional analysis of revenue-neutral packages for UBS financed by reductions in the Personal Income Tax Allowance</b>	...48
1.1 Cost of providing Shelter services	... 42		
1.2 Cost of providing Food services	... 43		
<b>Part 2: Distributional impact of providing Shelter &amp; Food UBS</b>	... 45	<b>Part 4: A Basic Income Supplement</b>	...50
2.1 Shelter services	... 45	<b>Part 5: Local Governance Costs</b>	...52
2.2 Food services	... 46	<b>Part 6: Effect of UBS on UK Budget</b>	...53
2.3 Average Value of Shelter, Food, Transport & Information services	... 47		
2.4 User Value of Shelter, Food, Transport & information services	... 47		

## Part 1: Cost of Shelter & Food Basic Services

The UK's housing is abnormally dysfunctional amongst developed societies, and any solution involves adding substantially to the housing stock through a building program.

In 2016 4.5M people in poverty lived in the private rented sector, and 73% of bottom two income deciles pay more than one third of their income in rent<sup>1</sup>, while 14% of all private renters pay more than 50% of their income in rent<sup>2</sup>.

In considering a Shelter UBS we are concerned with the development of a basic public service and we assume that the same investments and regulatory changes that will be required in any case<sup>3</sup> are part of the base case on which we build the Shelter UBS.

To provide a model for how a Shelter UBS would work we use the option to build 1.5M new social housing units (more than doubling the Local Authority current social housing stock of 1.2M units) and provide them rent, council tax, and utility free for 30 years. The cost of this option takes a £238Bn investment (£189K/unit) and amortises it over 30 years funded by a 30 year bond at the current UK 30 Year Treasury yield rate of 1.8% resulting in £12.3Bn per year.

Including Council Tax relief for Shelter UBS tenants and existing social housing tenants is a way of approximating the cost of compensating local government revenues for the provision of this UBS, so we have added a charge per unit in forgone local tax revenues, based on current Council Tax Support .

To cover utilities (power, heat, water) we have allocated an allowance of £1,250/year to all social tenants, including existing tenants.

To understand the value such a service would have to users we use the current costs for social housing and concessionary council tax charges, and assume that 100% of the new housing would be split between households in the bottom 2 income deciles.

Distribution of housing will require allocation that will have to be based on assessed needs. For the purposes of this summary analysis we have assumed that 55% of the new housing units would be allocated to new social tenants in the lowest income decile, and the remaining 45% of units to new tenants in the second lowest income decile. This above allocation would meet 30% and 25% of total housing needs in deciles 1 and 2 respectively.

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<sup>1</sup> <https://www.jrf.org.uk/press/work-poverty-hits-record-high-housing-crisis-fuels-insecurity>

<sup>2</sup> <https://www.local.gov.uk/about/news/rental-logjam-one-seven-private-renters-spend-half-their-income-rent-lga-analysis>

<sup>3</sup> <http://www.webbmemorialtrust.org.uk/home-page/housing-poverty-and-the-good-society-what-can-we-achieve-by-2025/>

## 1.1 Cost of providing Shelter services

In this project it is assumed that "Shelter services" comprise the following components:

- (a) rent free accommodation;
- (b) no Council Tax obligation for social tenants;
- (c) utilities allowance included free of charge.

### Analysis of cost of construction of new housing units.

Based on a typical cost per unit of £189,000 the total capital cost of this building program would be £283.5 Bn.

It is assumed that this capital cost would be financed using 30 year Treasuries at current market rates of 1.80%. This yields an annual cost of £12.31Bn once all the units have been built.

In practice it would likely take 7 years to complete the building program costs would ramp up starting at £1.2 Bn per year, assuming 1/7th was build in the first year.

### Analysis of cost of Council Tax exemptions

In order not to erode local government revenues while still providing relief for social tenants as part of the Shelter UBS we have calculated compensation to local government to replace Council Tax revenues.

About 63% of existing social renter households in the lowest two deciles receive some form of Council Tax Support (CTS) from local authorities, and taking account of current average council tax payments for Band D properties and the mix of existing social tenancies across Council Tax Bands yields an average Council Tax bill of £1,181.

For households receiving CTS the most common method is a minimum payment, which averages 16.7% for 2017/18 of the tax across all Local Authorities<sup>4</sup>. That represents a charge of £197 that would normally be levied on the 63% of households on D1 and D2 that qualify for CTS.

Average CT charge and Social tenancies

Band	Charge	% Social tenants
A	£1,061	58.21%
B	£1,237	23.48%
C	£1,414	12.59%
D	£1,591	4.73%
E	£1,945	0.89%
F	£2,298	0.09%

We calculate an average local government rebate of £563 per unit per year, based on extending the existing portion (63%) of social tenants receiving CTS to include all new social tenancies and covering the 37% of existing tenancies' full CT liability.

Applied across the entire social housing stock of existing and new builds results in an annual cost of £1.52Bn once the building program is completed.

<sup>4</sup><http://www.counciltaxsupport.org/schemes/>

## Utilities Allowances

For utilities we include an annual allowance of £1,250 per unit, based on the 2014 Living Costs and Food Survey average utility bill payments (electricity + gas + water) for social renting households of £1,211 per household, uprated for inflation.

We apply the same rebate and allowance to the existing 1.2M social housing units, as well as the new builds.

Total costs of the Council Tax and utilities allowances will be £4.9Bn per year to central government once the building program is completed.

## Analysis of effect on existing Housing Benefit costs.

Based on recent Family Resources Survey data (for 2014/15), around 70% of tenant households in the bottom 2 deciles receive Housing Benefit and the average HB payment is £76.50/week, or £3,980 per year. Applying this to the 1.5M new social housing units yields a saving of 70% x 1.5M x £3,980 resulting in savings of £4.2Bn from the existing Housing Benefit program once the building program is completed.

The overall aggregate cost of providing Shelter services free at point-of-use, using these methods, is estimated at:

- £13.03 Bn per year

## 1.2 Cost of providing Food services

*We examined 3 options for the Food service, and chose Option 2 to model.*

### Option 1: Food bank replacement

The Trussell Trust operates 1,373 food banks which handed out 1,182,954 parcels of food, each with 3 days supply of food, in the 12 months from April 2016 to April 2017. This equates to 10.65M meals at 9 meals per package.

The Independent Food Aid Network estimates that there are an addition 621 food banks operating in the UK (excluding informal outlets), which suggests that there is an additional 50% of demand over and above the Trussell Trust numbers. Using the JRF MIS budgets averaged across and weighted for household types suggests a budget of £1.87 per meal per person.

Combining these numbers, and adding a 15% overhead cost, suggests that a total budget of £34.3M would replace food bank use, supplying 15.7M meals a year.

Even if we guesstimate the effect of “open access” in which a referral would not be needed for food bank access, and assume that demand would be twice the current recorded demand, the total cost would \$68.7M.

Neither the costs nor the effects are significant from a macro economic perspective, and while we believe that delivering this service would be socially preferable to reliance on charities, it does not satisfy the qualifications for a UBS. While this option may satisfy the definition of a UBS if access is open, it does meet the safety requirement that a UBS aims to achieve in order to liberate citizens from fear and enable a flexible labour market.

## Option 2: Removing “food insecurity” as identified by FSA survey 2016

The Food Standards Authority conducts a nationwide survey every 2 years that includes questions which capture the extent of “food insecurity”, defined as having been concerned about not having food for the household at some point in the previous 12 months.

The FSA survey results<sup>5</sup> suggest that 8% of households experience food insecurity at some point in a year. This equates to 2.2M households, a similar number to our estimate for open foodbank access.

To bring the scope of this service option up to the level we would expect from a UBS we have used a 100% take-up rate in the food insecure population and a provision rate of one third of meals.

This service would provide 1,873.9M meals a year, costing £4Bn a year, using the same per person per meal costs as above and a 15% overhead.

## Option 3: A full community food program

A more fully fledged Food UBS would aim to provide a community service with completely open access for all, meeting needs as diverse as an informal UBS survey from 2013 suggests of 48% participation for 7 meals a week averaged across the population. This option embodies the kind of social institutional fabric that would support and develop a truly cohesive society in which UBS provide shared experiences and communal environments. We might be some way from being able to even visualise such a service, but it is instructive to understand what such a program would look like, and its cost and distributional effects.

A community food program would necessarily be locally designed and delivered, and would include many varieties of food service in every locality, from public canteens to food boxes for in-home preparation. Different options would cater for different dietary preferences (e.g. vegetarian) and different modalities (e.g. take away or eat in). Some communities might offer more options and others less, all of which would be decided by, and managed by, an accountable local democracy (see Local Democracy section below).

This option would have a total cost of around £21.2Bn, with values to households ranging from £45/week in the lowest deciles to £1.63/week in the highest deciles. Our cursory distributional analysis assumes lower take up rates in higher deciles, with 5% of those in the highest decile only using the service for 0.5 meals/week, while those in the lowest deciles would use 14 meals/week.

In practice this kind of UBS is predicated in the existence of much more devolved government than we have today, and would need to emerge voluntarily from communities that saw value in its provision. As such it is an aspirational model rather than an option which we can reasonably propose at this time.

The overall aggregate cost of providing Food services free at point-of-use, using Option 2, is estimated at:

- £4.03 Bn per year

<sup>5</sup><https://www.food.gov.uk/science/research-reports/ssresearch/foodandyou>

## Part 2: Distributional impact of providing Shelter & Food UBS

As the service levels selected for this modelling apply only to the basic needs of the least advantaged, we have assumed that all Shelter and Food UBS users would be in the bottom 2 deciles of the income scale (the households with the lowest equivalised net incomes in decile 1, and then decile 2, and so on... up to the richest households in decile 10).

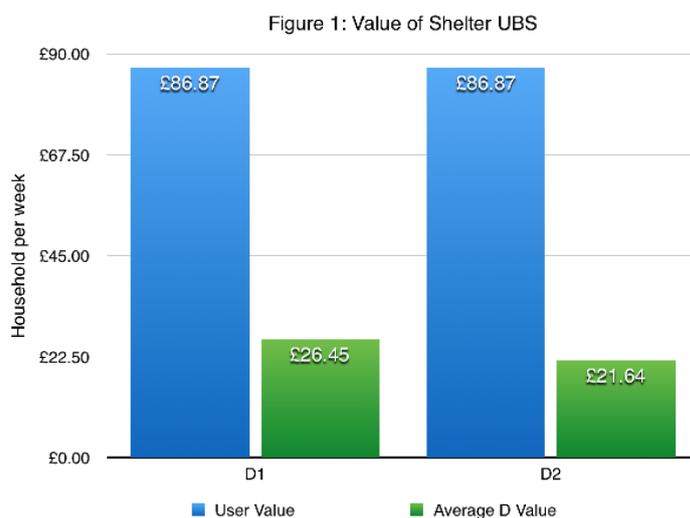
For Shelter we have assumed that 55% of the new housing units would go to households in the bottom decile and the remaining 45% to households in the second lowest decile.

For Food we have assumed that 100% of the makeup would be from households in the lowest income decile.

The distributional impact varies significantly between actual users of the services, and average constituents of the deciles including the population who do not use the services. For this reason we have evaluated both the User Value and the Average Value across a decile for each service.

### 2.1 Shelter services

Figure 1 below shows the User Value (blue) of the cash equivalent of free Shelter services, classified by household income decile. This is the same in both deciles: £52/week, calculated using current average current social rents<sup>6</sup> scaled up for inflation, plus £34.87/week in utilities and tax savings. The cash-equivalent Average Value (green) of Shelter services across deciles 1 and 2, with the differences reflecting the different take-up rates within the populations according to decile. 55% of the new housing units in our model are assigned to households in D1 and the remaining 45% to households in D2.



The same budget distributed as a Basic Income would provide a per person weekly income, before taxes and any adjustments to benefits, of:

	Per person/ week
Gross UBI equivalent	£3.85

<sup>6</sup> FT3232 (S428): trends in mean rent after housing benefit

## 2.2 Food services

Assuming that the 8% of the population that are food insecure exist exclusively in the poorest 10% of the total population, we have assumed an 80% take-up rate in decile 1 for the food service.

For all users of the service we assume 7 meals a week, constituting 33% of meals.

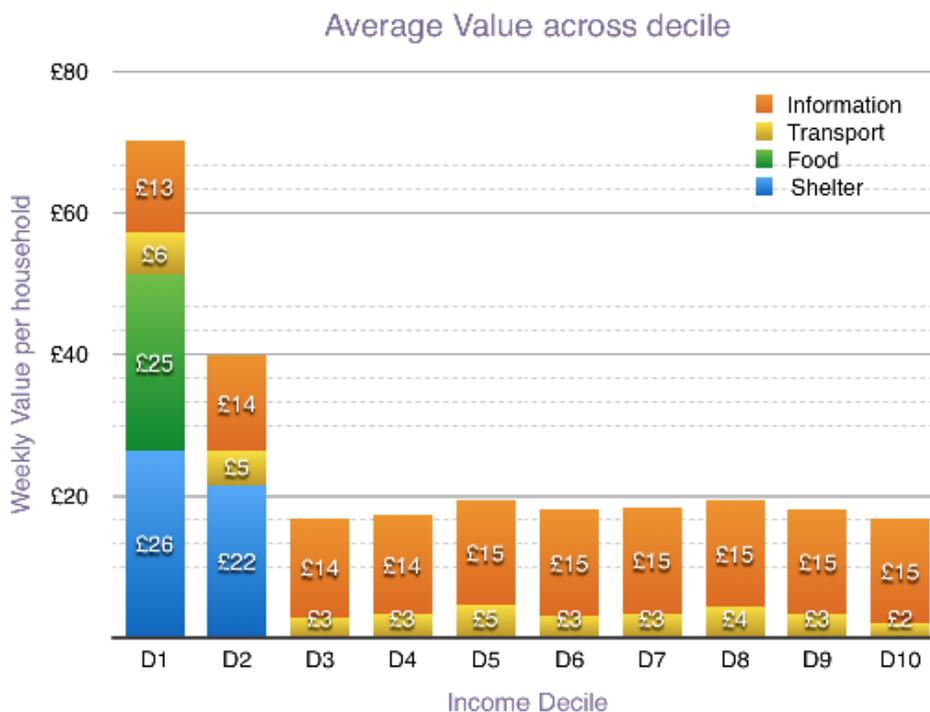
	Single User Household Value	D1 Average HH Value
<b>Food Service - Option 2</b>	£12.96	£24.88

The same budget distributed as a Basic Income would provide a per person weekly income, before taxes and any adjustments to benefits, of:

	Per person/week
<b>Gross UBI equivalent</b>	£1.19

## 2.3 Average Value of Shelter, Food, Transport & Information services

This chart combines the results from this and the first Technical Analysis to show the average values to households of each of the UBS in each decile.



The same budget distributed as a Basic Income would provide a per person weekly income, before taxes and any adjustments to benefits, of:

	<b>Per person/week</b>
<b>Gross UBI equivalent</b>	<b>£12.47</b>

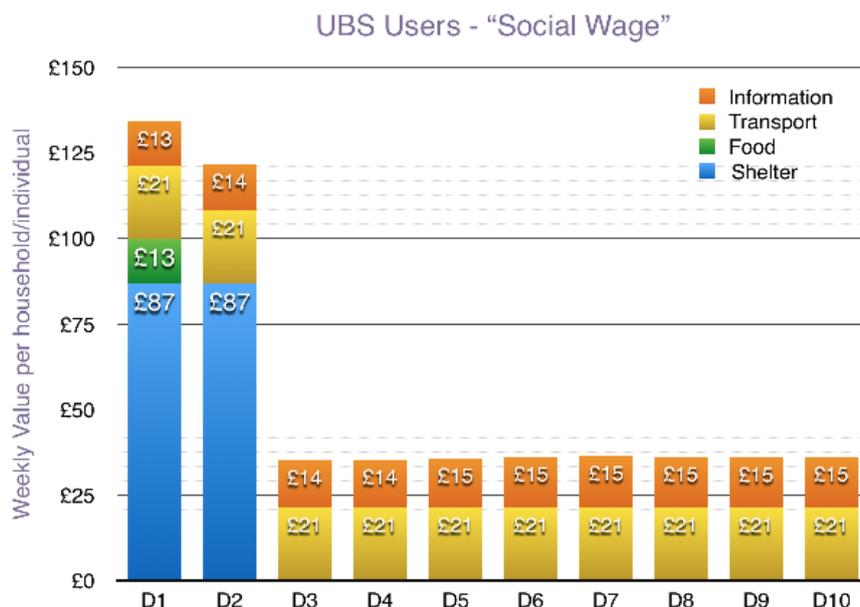
The reason UBI value is less than UBS value is because the UBS have greater displacement value to the recipients than the cost of their provision.

We also note, with reference to the UBI modelled later in this document, that the cost of all the UBS have a net budget cost equal to a taxed UBI of £20/week gross, which yields a average net value of only £4.15/week to the lowest 2 deciles.

## 2.4 User Value of Shelter, Food, Transport & Information services

This chart combines the values of each of the UBS to the individuals that actually use the services in each decile.

This analysis is limited by the inability to differentiate between different household sizes and still deliver a single dataset, however it does demonstrate the increased value of the services to service users, showing the target alignment that UBS achieves between needs and resources. The big difference being the value to people who use the Shelter and Food services, worth over £100/week. The Information service assumes almost uniform use across the deciles, and users in any decile who use public transport benefit equally.



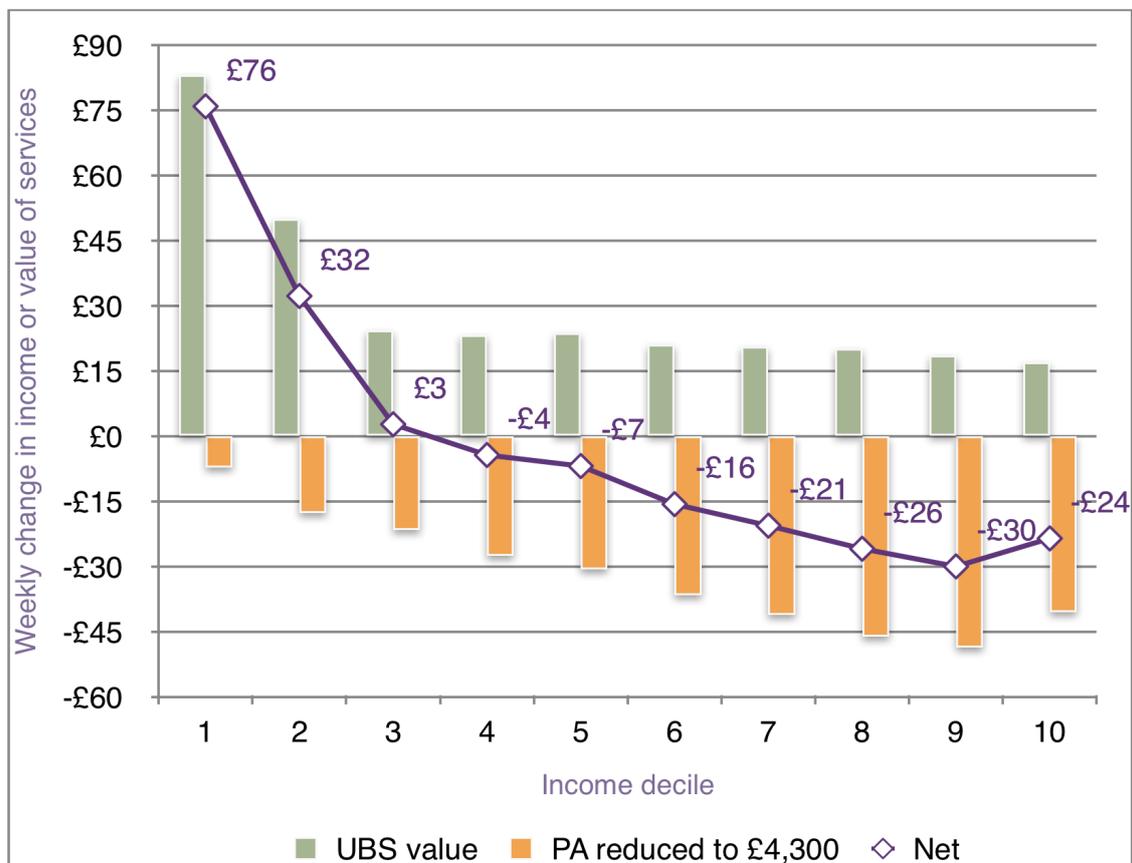
The same budget distributed as a Basic Income would provide a per person weekly income, before taxes and any adjustments to benefits, of:

	<b>Per person/week</b>
<b>Gross UBI equivalent</b>	<b>£12.47</b>

## Part 3: Distributional analysis of revenue-neutral packages for UBS financed by reductions in the Personal Income Tax Allowance

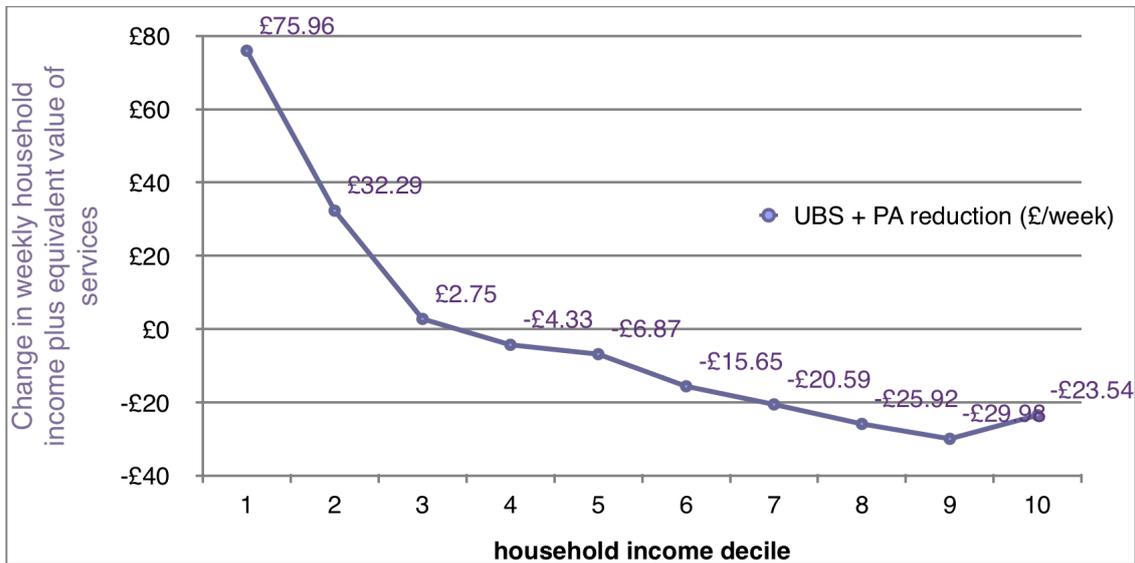
### 3.1 Financing services using reductions in the Personal Allowance

This chart shows the distributional impact of Basic Services financed by reducing the value of the personal allowance for income tax by £7,200, from its 2017-18 value of £11,500 to £4,300. This raises around £45bn, almost precisely offsetting the cost of providing the UBS services free at point-of-use.



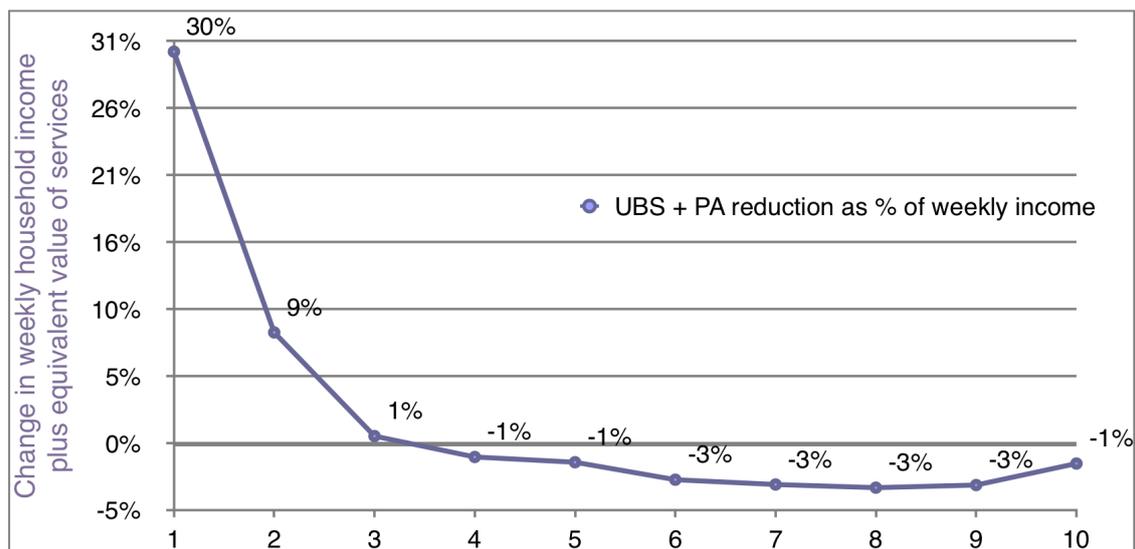
## Cash Values

This shows average gains overall for the bottom 3 deciles and losses for the top 6 deciles. Losers pay an average of £18.12 a week.



## Percentage Impact

The lowest income decile gains by 30%, deciles 1 to 3 gain an average of 13%, and deciles 4 through 10 lose 2% on average.



## Part 4: A Basic Income Supplement

Universal Basic Services (UBS) and Universal Basic Income (UBI) could be complimentary components of a sustainable future for social welfare. Progressive proponents of a UBI assume the pre-existence of a platform of social welfare services, and advocates of UBS acknowledge that there are both personal and specific needs that will require some form of monetary distribution to preserve freedom and agency.

We note that there are various mechanisms by which this income could be distributed, including a revolving credit account, however those different methods of distribution do not affect the macro economic analysis if the assumption is that all of the credit provided is always spent.

### 4.1 Sizing a Basic Services income supplement

To satisfy this requirement for some form of basic income supplement we have examined the costs and effects of adding a £20/week per person supplement.

In our model we applied this payment to every individual irrespective of age.

We have modelled 2 versions of the treatment of this income:

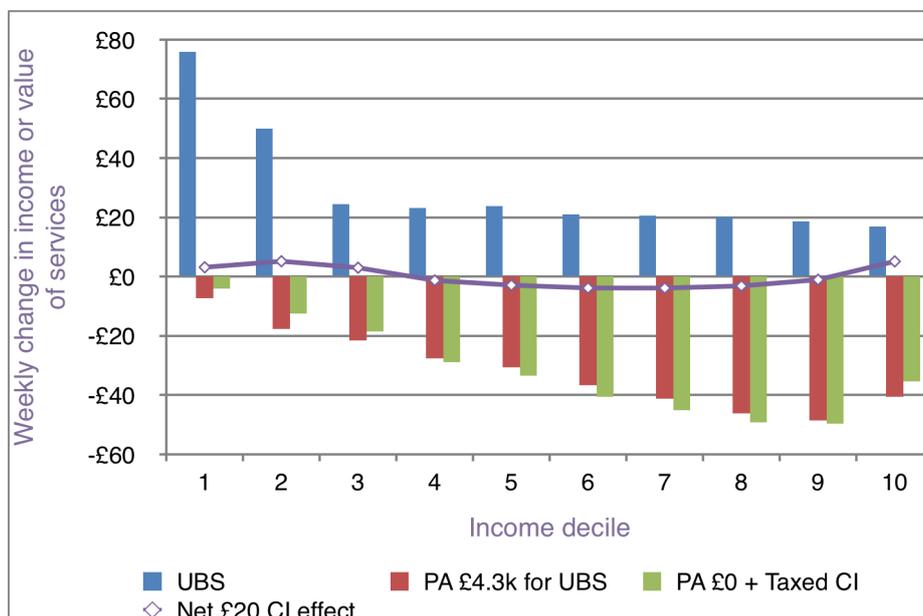
1. Taxed: in this model the £20/week (£1,040/year) is added to taxable incomes.
2. Untaxed: in this model the supplement is treated as tax-free income for all.

In both cases we have made the following adjustments to existing benefits :

- A. Replaced Child Benefit
- B. Reduced Job Seekers Allowance by the same amount
- C. Reduced State Pension by the same amount
- D. Reduced Disability benefits by the same amount

### 4.2 £20/week income supplement as taxable income

A £20/week taxable income supplement including the adjustments to benefits described above would have a net cost £44.5Bn a year, and the chart below shows the distributional impact of that (in addition to the UBS) funded by eliminating the Personal Income Tax Allowance.



## 4.1 Sizing a Basic Services income supplement

The small difference is unsurprising as the Personal Allowance has some equivalence to a universal payment, and the reduction in the allowance needed to make the CI payment revenue neutral means that the distributional effect is also pretty flat.

The net difference between UBS on its own and the addition of a small £20 UBI supplement (treated as taxed income and reducing means tested benefits) is very slightly more progressive, providing an additional £3 to £5 a week in the lowest 3 deciles, and £5/week in the 10th decile because many of those households have had their PA withdrawn through the existing tax system at higher incomes.

## 4.3 £20/week income supplement as tax free income

A tax-free basic income payment of £20/week costs £10Bn even after eliminating the Personal Allowance.

We have not included the modelling on this option as it would require increases in tax rates to make it revenue neutral, and such an analysis is beyond the scope of this document.

## Part 5: Local Governance Costs

As implementation of Universal Basic Services (UBS) will require more accountable and effective local government, we have made some estimates of the costs that this additional local governing architecture.

### Assumptions

Using these basic assumptions we have built a model for estimating costs:

- 650 local governments
- 25 elected members in each constituency
- twice as many administrators as members
- elected members paid 5X the local average income (£100,000 average)
- administration staff paid national average (£21,300)
- £1M annual capital grant for elections, buildings and infrastructure costs

**These assumptions result in an annual cost of £2.97Bn once all localities have their governance up and running.**

### Process

It is likely that adoption of the local governance model, which would be voluntary but necessary to gain direct control of local funds dedicated to UBS, would start more slowly and then ramp up.

Although the replacement of local councillors is probable in many areas we have not factored any such reductions or savings into our model.

**The same budget distributed as a Basic Income would provide a per person weekly income, before taxes and any adjustments to benefits, of:**

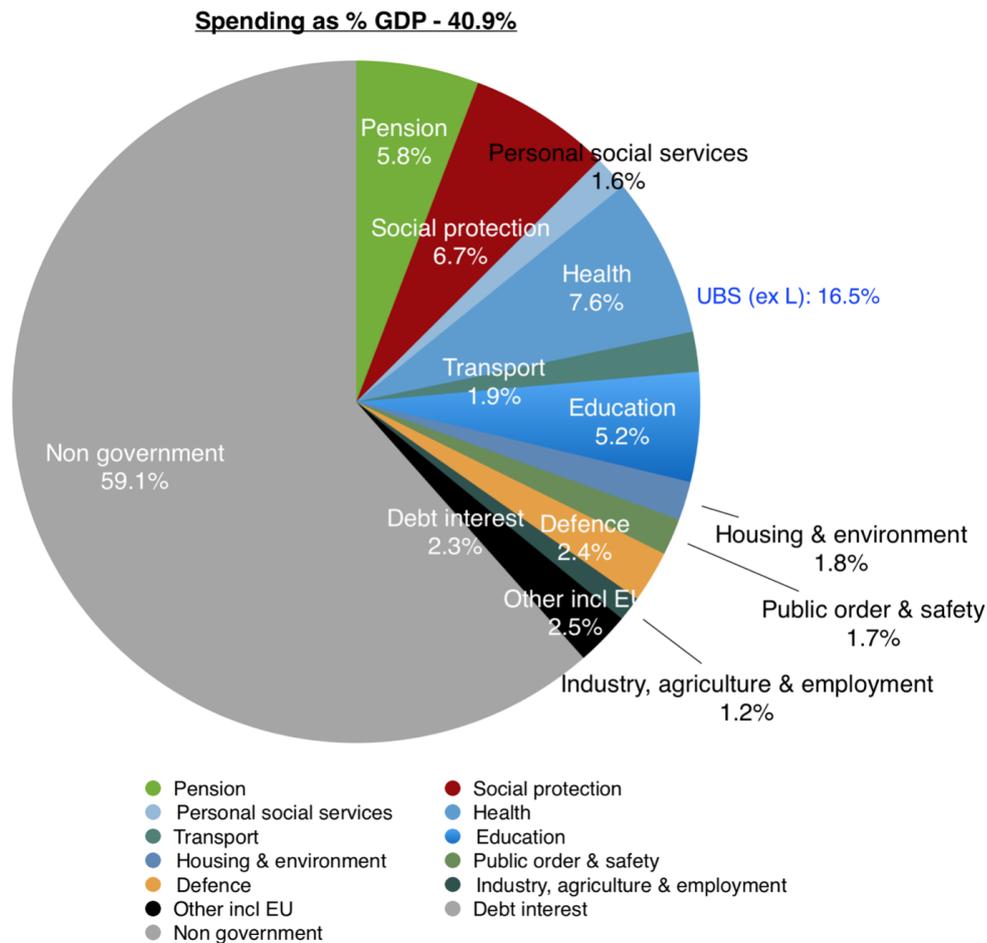
	Per person/week
Gross UBI equivalent	£0.88

## Part 6: Effect of UBS on UK Budget

To provide an overview of the effect of the proposal for Universal Basic Services (UBS) on the overall UK spending and revenue budgets we analysed current spending on UBS-type services, and then added the proposed additional spending and revenues.

### 6.1 Current UK spending (2017) on UBS-type services

Total spending is just under 41% of GDP and UBS-type services (Health, Education, Housing, Transport, excluding Legal) represents 41% of total spending.

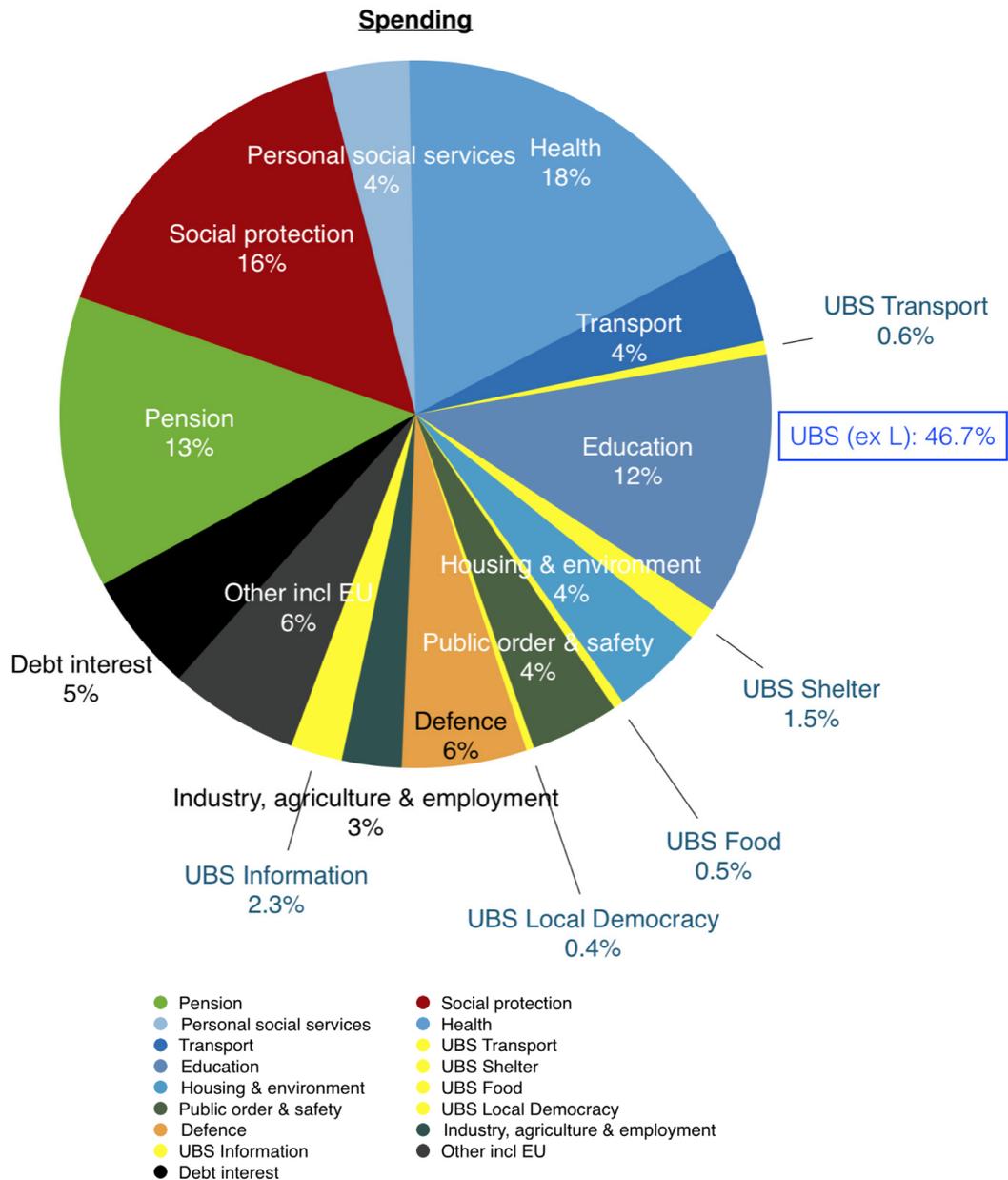


Total 2017 revenues are 38% of GDP, and revenues from income related taxes + other taxes represent 41% of total revenues.

## 6.2 UK spending with proposed UBS expanded services

Spending would increase to 43.1% of GDP and UBS services excluding Legal (Public Order, General government and democracy services) would account for 46.7% of total spending.

Additional UBS spending is highlighted in yellow.



Total revenues would increase to 40% of GDP as a result of reducing the PA to £4,300, with income-related taxes + other accounting for 44.2% of total revenues.

An opportunity to link UBS spending and income-related revenues is noteworthy.

