

# Executive Summary

Our proposals have been designed to:

- Remove up to 5 million people from relative poverty by 2020 – including eliminating UK child poverty and delivering further reductions in pensioner poverty.
- Reduce means-testing for over 5 million people by 2020 – restoring incentives to work, save and support families (with 10 million fewer means tested benefits in payment).
- Support up to 2 million more people into employment by 2020 – reducing poverty, increasing opportunity, and cutting the benefits bill.
- Target resources to improve education for up to 1.5 million vulnerable children, while improving standards for all pupils – giving a fair chance for every child.
- Deliver 1 million more affordable homes by 2020 – cutting homelessness and overcrowding.

Liberal Democrats will:

- Give every child a chance, with over £600 million extra early years and childcare help for up to 1.5 million vulnerable children, a new £1.5bn Pupil Premium to deliver extra help in schools – helping to bring funding in the most needy schools up to private school levels. This will get more money to children from deprived backgrounds, cut class sizes, and give schools incentives to take in high needs children. This is in addition to our pledge to cut all primary school class sizes. We will also improve school meal provision.
- Cut child poverty by reforming and increasing child benefit – raising the rate of child benefit by up to £5 for each family. This policy will remove up to 150,000 children from poverty.
- Strengthen families by reforming tax credits so that they no longer penalise couples; reducing teenage pregnancy by raising skills and aspirations amongst vulnerable young people and improving sex and relationship education; and improving rights to flexible working.
- Reform tax credits, to make them more stable and better targeted - reducing means testing for middle and higher income earners. By reducing overpayments and focusing help on those on lower incomes, we will save a total of around £3bn per annum.
- Massively increase the supply of affordable housing – with 1 million more affordable homes by 2020 through freeing up the planning rules to give local authorities more discretion and incentives; making available public land for affordable housing; and increasing investment in affordable housing.

- Renew and diversify neighbourhoods by giving council and housing associations opportunities to sell off properties on council estates for owner occupation and shared ownership, on the condition that monies are re-invested in new housing in diversified areas. Working with local authorities, we will create diverse and balanced communities in place of low aspiration and high crime social housing estates.
- Help more people back into employment, including aiming to halve the number of people on incapacity benefits by 2020 by introducing a single Working Age Benefit; implementing the Layard proposals to help those with mental health problems; and replacing JobCentre Plus with a new 'First Steps' Agency as part of an ambitious plan to use the voluntary and private sectors to deliver personalised support to help all individuals back into employment.
- Simplify the benefits system, making it easier to get off benefits and into work ending the baffling administrative divisions which make life more confusing for claimants. All benefits and tax credits will be delivered by a single agency.
- Make Britain's tax system simpler and fairer by abolishing the regressive Council Tax and replacing it with a fairer local tax based on incomes. We will make the tax system fairer by ending unfair reliefs and allowances which favour those on high incomes.
- Immediately restore the link between the basic state pension and earnings and introduce a higher Citizens' Pension – paid to all UK citizens meeting a residency test. This will reduce means-testing from up to 50% of pensioners to less than 10%. We will also establish an Independent Commission on Public Sector Pensions to ensure that public sector pensions are fair and affordable – with any savings re-invested in our Citizens Pension.
- Cut the extra costs ('Poverty Premium') paid by poor people and reduce problems of debt – including abolishing higher utility pre-payment charges; allowing social pricing for utility bills for vulnerable groups; increasing the availability of low cost home energy conservation measures; extending the Winter Heating Allowance to those on higher rate disability benefits; and improving access to the Social Fund. We will also seek to ensure more free generic financial advice and tougher action against irresponsible lending practices.

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# 1. Introduction

“No society can surely be flourishing and happy of which the far greater part of the members are poor and miserable. It is but equity, besides, that they who feed, clothe, and lodge the whole body of the people, should have a share of the produce of their own labour as to be themselves tolerably well fed, clothed and lodged”.

Adam Smith, “The Wealth of Nations” (1776).

“The great problem for our civilization is unresolved. We have to account for, and to grapple with, the mass of misery and destitution in our midst, coexistent as it is with the evidence of abundant wealth and teeming prosperity.”

Joseph Chamberlain, “Radical Programme”, September 1885.

“The State, in organizing security, should not stifle incentive, opportunity, responsibility; in establishing a national minimum, it should leave room and encouragement for voluntary action by each individual to provide more than the minimum for himself and his family.”

William Beveridge, “Social Insurance and Allied Services”, 1942.

- 1.0.1 The Liberal Democrats exist to build and safeguard a fair, free and open society in which we seek to balance the fundamental values of liberty, equality and community, and in which no one shall be enslaved by poverty, ignorance and conformity (Preamble to our Party Constitution).
- 1.0.2 Sadly, Britain is still very far from realising those aspirations. Instead, we live in a country of growing affluence but continued and dramatic inequalities in wealth, income, health and opportunity. Over 12 million UK citizens live in relative poverty. Social mobility – once expected to rise in a more affluent society – appears actually now to be in decline, and an individual’s income at age 30 is determined by their parents’ income to a greater extent than in almost any other developed country. The recent UNICEF Report (February 2007), which ranks Britain bottom of 21 developed countries, behind Portugal, Hungary, Greece and the Czech Republic, for the poverty and lack of opportunities of children, is both a terrible indictment and also a warning of how stubborn these inequalities threaten to be. These inequalities of income, wealth and opportunity cause enormous damage to the fabric of society. Levels of crime and anti-social behaviour, community cohesion and political participation are all adversely affected. The greater the degree of inequality in a society, the less people – particularly those at the bottom of the pile – feel any attachment to it and the more stress they suffer.
- 1.0.3 Liberal Democrats believe instead in creating a fair society, in which everyone has the opportunity to fulfil their potential. Liberal Democrat philosophy emphasises the extent to which poverty and lack of opportunity restrict freedom. These

## Freedom From Poverty, Opportunity For All

interferences with freedom justify government interventions, with the aim of widening opportunities and extending people's freedoms. However, we reject the view that the solution to Britain's social problems lies in the big-government, top-down, target-driven approach of the Labour Government - which risks ensnaring people in means-tested benefits and welfare dependency. We are equally sure that the answer to these problems does not lie 'in a great leap backwards' to 19th century Tory 'voluntarism'. The experience of America shows that even in an open, free market, and meritocratic society, with a strong voluntary tradition, there can be high levels of poverty, and low levels of social mobility. Current Tory plans to 'roll forward the frontiers of society' sound less like an innovative solution for the future and more like a return to the failed voluntarism of the past.

- 1.0.4 We believe instead in measures that tackle the root causes of poverty. This concern for poverty and inequality of opportunity, combined with a commitment to giving people freedom from the state and not dependence upon it, has been deeply embedded in Liberal policy and philosophy for well over a century. It underpinned the 'New Liberal' approach of the great reforming Liberal government of 1906, which introduced old age pensions and national insurance for periods of sickness, invalidity and unemployment - laying the foundations of the welfare state. Asquith, in 1909, called for the State to "lend a helping hand" and argued that: "A man is not free unless he has the means and opportunities of education".
- 1.0.5 The Liberal social reformer William Beveridge set out his grand 1942 vision to conquer the 'Five Giants' of 'Want, Disease, Ignorance, Squalor, and Idleness'. But Beveridge rejected a 'Santa Claus State' of benefit dependency, and stressed the danger of infantilizing citizens. He warned that the new welfare state "should not stifle incentive, opportunity, and responsibility." It is on the basis of this consistent and distinctive Liberal Democrat philosophy that we attempt, in this paper, to address the challenge of poverty and lack of opportunity that Britain faces in the 21st century.

## 2. The Challenge

- 2.0.1 The Britain of the 1970s was less affluent than today, but far more equal. Relative poverty<sup>1</sup> had fallen to around 10% of the population -a post war low. Yet today, despite increasing affluence, more than 12 million people live in relative poverty, 3.8 million of whom are children. Your income and lifestyle at age 30 is more determined by your parent's income and life circumstances than in almost any developed country. Social mobility has actually declined, meaning that those who are born into poverty today have less chance of fulfilling their potential than they did forty years ago.
- 2.0.2 During the Thatcher years the rich became a lot richer, while the incomes of the poorest actually fell by almost 10%. With unemployment more than doubling<sup>2</sup>, numbers on incapacity benefit tripling, and rising family breakdown, households without work became common. Conservative Government Policy failed to address growing inequalities, as benefits and pensions fell behind growth in wages, while cuts in direct tax favoured the wealthy, and rises in indirect taxes squeezed the poor. As a result, poverty among working age adults tripled, and one in three children ended up in poverty. Inequalities became more entrenched and deprivation more geographically concentrated.
- 2.0.3 Labour has failed to reverse these trends. The overall rise in inequality has been checked, but it has not declined. More money spent on means-tested benefits -such as tax credits and pension credit – has led to some fall in rates of poverty, but at the price of greater complexity, dependency and of undermining incentives to save and work.
- 2.0.4 Child and pensioner poverty are still remarkably high by European standards, as is poverty amongst childless adults of working age. Poverty also remains highly concentrated - in the most deprived wards in Britain, over half of children live in households with no one in work. Tony Blair recently admitted that social mobility is lower today than a generation ago.
- 2.0.5 This paper seeks to reverse these trends by bringing forward a package of proposals to tackle poverty, deprivation and lack of opportunity. This paper does not simply aim to address levels of income but also seeks to deal with the problems of poor housing, poor education, lack of employment opportunities and other causes of inequality.

### 2.1 The key challenges for Britain today

- 2.1.1 The causes of poverty and inequality in today's Britain are complex. There are many factors at play, and they all interlink. A joined-up approach is therefore essential to successfully tackling poverty and inequality. Liberal Democrats believe that to tackle poverty and increase opportunities we need to find effective solutions to the following challenges:

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<sup>1</sup> Relative Poverty is the percentage of relevant group on less than 60% of the median income.

<sup>2</sup> In 1979 unemployment was 1.1 million, by 1983 unemployment was over 3 million.

- **Educational disadvantage:** Almost a quarter of UK children have very low literacy and numeracy standards. These are often the poorest children, trapped in low aspiration education with other underprivileged children and disadvantaged from the very beginning -they can expect a life of unemployment, low pay and poverty.
- **Child Poverty:** Almost one in three children is in poverty. Poor children are more likely to fail at school, have poor health, engage in crime, and be unemployed. A larger proportion of UK children live in households with no work than in other European Union countries.
- **Families:** Family break-up and instability have increased child poverty and damaged child well-being. This is the conclusion of the recent UNICEF report. Britain still has very high rates of teenage pregnancy, which are associated with low skills, poverty, and cycles of dependency.
- **Disability:** Individuals living with disabilities are more likely to be in poverty, indeed 29% of households with disabled adults are in relative poverty compared to 17% of other households. There is insufficient support for the disabled -in terms of entering employment, accessible housing or meeting the additional costs of disability. Carers also lack adequate support.
- **Housing:** Over 1.5 million people are on the housing waiting list -up 50% from 1997- yet the building of homes for social rent has slumped by 50% since 1996/97. The demand for housing of all types has now massively outstripped supply, meaning house prices are soaring, leaving those on low incomes further and further behind.
- **Deprived Neighbourhoods:** Deprivation has become highly concentrated in recent years, as housing policy has excluded the more affluent from traditional council estates. Since 1980, the full-time employment rate has plunged from two-thirds to one third of people of working age in social housing. Deprived areas have higher rates of crime and anti-social behaviour. Schools serving deprived catchment areas face greater challenges. Poverty levels are particularly high for some ethnic minority groups who often become concentrated in such deprived neighbourhoods.
- **Unemployment:** UK male employment rates are 10% lower than in 1976. Employment rates in Britain are low amongst lone parents. There is too little support for those stuck in long term unemployment and those going in and out of short-term, dead-end, jobs.
- **Incapacity benefit:** There are still almost 2.7 million people on incapacity benefits – one of the highest percentages in the developed world, costing Britain more than unemployment. Special help is only available for a small proportion of existing claimants. Numbers on incapacity benefit are closely linked to communities with high levels of unemployment and deprivation, and low levels

of skill. The fastest growing category of claims is for mental health problems and depression – now 40% of all claims.

- **Working Age Poverty:** Poverty is still high amongst the working age population, not least for those without children, because of joblessness, disability, low skills, low pay and low benefits. Young people can also be very vulnerable to poverty, with restrictions over, for example, single room rent.
- **Taxation:** Britain's tax system combines progressive income taxes with regressive indirect taxes. The average tax burden varies little across the income range -indeed the richest 10% of the population pay a marginally lower share than average- reflecting the generous tax allowances for the rich and the impact of regressive taxes on the poorest. Council tax -the most regressive tax- has risen almost 100% since 1997. Consequently this paper should be read in conjunction with our tax proposals set out in *Fairer, Simpler, Greener* and the tax policy paper *Reducing the Burden* due to go to the Autumn 2007 conference which detail Liberal Democrat proposals to make the tax system fairer to boost incentives to work and to abolish council tax in favour of Local Income Tax.
- **Costs and Debt:** Many costs are higher for those on low incomes; people pay a 'poverty premium' such as utility pre-payment charges and higher credit costs.
- **Pensions:** The state pension, which requires decades of contributions, is set over £30 per week below the means-tested level. Labour have announced that, if re-elected, the basic state pension will continue to fall behind earnings until at least 2012 or even 2015. Means-testing erodes incentives to save, and as many as 50% of pensioners will be on means-tested benefits in 2050. Occupational pension provision is also increasingly unequal.
- **Health:** Life expectancy varies by approximately 15 years between the most deprived and the most affluent parts of Britain. Between 1997/98 and 2002/3 the gap between average life expectancy of the population as a whole and that of the poorest fifth actually widened substantially -health inequalities, in terms of life expectancy and health outcomes, are now at their widest since Victorian times. Proposals to tackle health inequalities are set out in the health policy paper due to go to the Spring 2008 party conference. We believe that the greatest contribution which we can make to narrowing health inequalities is to reduce poverty and improve housing, in the ways set out in the rest of this paper.
- **Crime:** Crime disproportionately affects the poorest communities, which have the highest levels of crime and anti-social behaviour. Poverty and low skills dramatically increase the risks of people becoming offenders and getting caught up in the revolving door of prison. This paper should therefore be read in conjunction with policy paper 78 *Together We Can Cut Crime* (2007) which brings forward proposals to tackle the root causes of crime.

### 3. Education: Giving Every Child a Chance

“...eliminating child poverty will, on its own, have a limited role in improving outcomes for children growing up in poverty....initiatives to improve skills and employment opportunities are probably the only sensible way to tackle the problem of persistent poverty...”(Blanden and Gibbons, 2006).

- 3.0.1 Liberal Democrats believe passionately in opportunity for all, which means a good education for all. Our aspiration is that every child should have an equal chance of fulfilling their potential. Yet this is very far from being realised in Britain today – where, more than in almost any other developed nation, it is your parents’ life circumstances and not your own skills or abilities which determine your educational attainment and future earning potential. The most deprived communities generally have the worst educational outcomes. And, as deprivation has become more concentrated, the challenges facing schools in deprived areas have grown. There is a long tail of poor performance and low aspirations, as a quarter of children leave primary school without even basic literacy and numeracy skills.
- 3.0.2 Poverty, deprivation and poor performance in primary years is reflected in later educational attainment. Pupils in receipt of free schools meals are almost half as likely to achieve 5 A-C grades at GCSE. Too many young people leave education without any qualifications at all.
- 3.0.3 People with no qualifications and low skills are at high risk of a future of unemployment or low paid and insecure employment, and are twice as likely to be in poverty. Our skills profile lags behind other OECD countries. There are 4.6 million people in Britain without qualifications and a further 1.7 million with qualifications below level 2. Improving the educational outcomes and aspirations of children and young people is the single most important factor in breaking generational cycles of poverty. The impact of parental income on education is small compared to the overall gap in attainment between rich and poor children. Extra benefit spending will not by itself close the educational attainment gap (Blanden, Gregg and Machin, 2005). Instead, “initiatives to improve skills and employment opportunities are probably the only sensible way to tackle the problem of persistent poverty...” (Blanden and Gibbons, 2006).

#### 3.1 The Early Years

- 3.1.1 Evidence suggests that in the first year or two of life a child is usually best off at home with its parent or parents. We therefore believe it is vital to give more support to parents who want to make this choice. Consequently we renew the commitments made in policy paper 72 *Stronger Families, Brighter Futures* to help parents to stay at home immediately after the birth of their children, with a Maternity Income Guarantee for the first child equivalent to the current minimum wage for the first 9 months with the aim of increasing this to 12 months as resources allow.

3.1.2 However, there is considerable evidence that educational disadvantage emerges very early in life – before primary school is begun. In the past, early year’s education has been a ‘Cinderella Service’ in Britain, and there is still a lot of catching up to do. Education funding in Britain rises as children get older and peaks in full-time undergraduate education (which many poor children never access). But returns to educational investment are higher in the earliest years. So we consider that, in terms of tackling poverty and inequality, early years education is a top priority and that should be reflected in decisions about spending priorities. The Government has already begun a large programme of investment in Children’s Centres and schemes such as SureStart. But early evidence indicates that these initiatives have so far been ineffective in getting to hard to reach groups, including tackling the barriers to accessing appropriate early years education faced by disabled children. While there is an entitlement to 12.5 hours pre-school education for every three-and four-year-old, this is not always easy for low income groups to take up. Furthermore, many of the most vulnerable children live in workless households, without access to the Childcare Tax Credit. We believe that it is these children who are particularly in need of additional early years education (and not merely babysitting). Therefore, we propose to invest an extra £500 million per year in early years education for this vulnerable group, by extending the Childcare Tax Credit to cover children in workless households, provided the money is used for educational provision – although entitlement levels for workless households would still be set below the levels for working parents.

- **We will extend access to early years education for children living in workless households.**

3.1.3 There are also quality issues in early years education – the beneficial effects of early years support are highly contingent upon quality. There is a need for more highly trained staff and for activities which lead to direct benefits to the children and not merely ‘baby sitting’. Yet, at present, too many early years teachers lack adequate skills and qualifications. In policy paper 72 *Stronger Families, Brighter Futures* we set out proposals for a professional body which would cover all early years professionals, and would enhance their skills by requiring a minimum of NVQ level 3 qualifications for all staff directly involved with the care of children. We will allocate up to an additional £500 million over a parliament to the Transformation Fund in order to facilitate this professional body and invest in extra training.

- **We will allocate up to an additional £500m over a Parliament to the Transformation Fund to invest in the training of early year’s teachers and staff.**

3.1.4 To help pay for these changes, we will abolish the current employer tax subsidies for childcare, which give more money to those on upper earnings, while providing nothing for those on the minimum wage, who are not permitted to engage in such salary sacrifice schemes. This would save around £100m per annum. We would also make delivering these changes to the Transformation Fund and extending early years access for workless families the first priority before the Government’s current plans to roll out the increase in the early years entitlement. This could save up to £500m per year.

## 3.2 The Pupil Premium

- 3.2.1 Education has long been recognised as the most important single trigger for social mobility – Nordic countries emerge from international comparisons as more socially mobile than both the USA and many EU countries, and all four Nordic countries do unusually well in school appraisal systems run by the OECD. In Nordic countries, the system for allocating resources across schools has been designed to compensate for differences in parental resources.
- 3.2.2 The strong relationship between family income and educational attainment is at the heart of Britain's low mobility culture. Schools in wealthier catchment areas generally outperform those in deprived catchment areas. Areas with large ethnic minority populations often do badly in terms of educational outcomes. As deprivation has become more concentrated, schools in deprived areas face a greater challenge. And it is difficult to avoid the conclusion that social developments – family breakdown, very high levels of child poverty, joblessness and the culmination of disadvantage down the generations – have widened the gaps between children from different backgrounds. Aspirational parents will tend to take their children to schools further afield with better reputations based on better results. Too often, the schools with the greatest challenges have little or no more money than nearby schools (in spite of their much higher levels of need); they often find it difficult to attract and retain good headteachers and teachers; they often require greater staffing for children with special education and behavioural needs; and their class sizes are frequently too high for effective teaching.
- 3.2.3 The existing methods for distributing deprivation related funding are opaque and inconsistent. Figures show a surprisingly small range of funding per pupil between schools with very different proportions of deprived pupils. In contrast, the Dutch system awards the most deprived pupils nearly twice as much funding as the average child. Liberal Democrats want every child to be given a chance to succeed in a school which has the capacity to help them realise their potential.
- 3.2.4 We aim to double the level of deprivation related funding, with an initial commitment of an additional £1.5 billion per year to supporting disadvantaged pupils by introducing a pupil premium. The Pupil Premium will attach additional funding directly to pupils identified to be disadvantaged, which will follow the pupils throughout primary and secondary education to whichever school the pupil attends. The premium will allow schools to pay more to attract high quality staff; employ more specialists and reduce class sizes or concentrate on inclusion of pupils, including by outreach work with families. The extra funding will also help cut all class sizes – at present over 40% of Key Stage 1 children, and over 50% of Key Stage 2 children, are taught in classes of 29 or more. We would also encourage schools to arrange additional after school and holiday provision to ensure that all pupils have basic literacy, numeracy and communication skills. No pupil should be leaving school without these basic skills. We also believe that attaching additional funding directly to the child will encourage high performing schools to accept children with additional needs. This extra £1.5bn would increase total school

funding by almost 5% per year and help bring per pupil funding for qualifying children up to the level of the private sector. In the schools facing the greatest challenges, the boost will be even larger, reflecting the level of additional support required.

3.2.5 Before introducing the new pupil premium we would consult on the best mechanisms to use to target the additional funding, as well as the multiples of standard per pupil funding for each category. We envisage a limited range of categories of multiple of the standard funding, in order to aid simplicity. Extra money might be provided for high income deprivation (linked to parental benefit entitlement); social deprivation (such as children in care); other educational deprivation or additional needs (such as English as a second language). There would still be an additional funding stream for high level special educational needs. So total school funding would be based on the standard pupil grant; the deprivation based pupil premium and special educational needs. We will fund the £1.5bn annual cost of the pupil premium through the scaling back of Tax Credits, so that these are focused on those on low incomes with fewer people affected by means testing. This is in addition to our pledge made to invest in recruiting more teachers to cut class sizes, which will continue to be funded by the abolition of the Child Trust Fund. The abolition of the Child Trust Fund raises £240 million at present, rising to £480 million in 2011/12.

- **We will introduce the Pupil Premium to boost education spending by £1.5 billion per year, raising funding for pupils from deprived backgrounds.**
- **We maintain our commitment to recruit more teachers to cut class sizes, funded through the abolition of the Child Trust Fund.**

3.2.6 We also recognise the importance of proper nutrition for all pupils' ability to learn and concentrate. We are aware that poor diet and nutrition is a particular concern for children living in poverty which not only affects their long term health but their ability to learn as well. We plan to deliver an additional investment of £200 million per year into high quality school lunches, aiming to raise the current minimum spend on ingredients of 50 pence per meal in primary schools and 60 pence in secondary schools. We will also provide additional capital investment in school kitchens.

## 4. Housing: Building Homes, Building Safe and Diverse Neighbourhoods

### 4.1 Building Homes

- 4.1.1 The British housing market is not working, and people on the lowest incomes are paying the price. Over the last few years, house prices have soared in Britain, and the number of people on the waiting list for social rented properties has risen by 50% to 1.5 million. Consequently, while those in private property ride the price escalator ever higher; those on lower incomes are being hit hard. Poor housing is exacerbating poverty and inequality, increasing overcrowding and homelessness, and geographically concentrating deprivation. Poor housing has a particularly serious impact on child wellbeing – over 100,000 children are in insecure temporary accommodation, and 900,000 are in overcrowded homes, including 500,000 in homes unfit for habitation.
- 4.1.2 The housing shortage is also forcing up the costs faced by low income households, where housing costs are typically the largest single item in their budgets – almost one third of total expenditures- and is forcing up the housing benefit bill. The total bill for housing benefit has now reached over £15bn – the most expensive of all Britain’s benefits after pensions. Housing policy is particularly unfair to young people who cannot afford to get onto the housing ladder and are penalised through the benefits system with the single room rent.
- 4.1.3 The Labour Government has failed to address these problems. New building of social rented properties has fallen by 50% - from over 40,000 per year in 1996 to around 20,000 in 2005/06. The house price boom has been fuelled by a number of factors, including lower interest rates. There is, however, another vital factor - demand has quite simply outstripped supply. New house building is not keeping pace with new household formation. It is not only the levels of Government spending on social housing which has been a problem. The planning system itself is designed so that there are neither satisfactory outcomes for local communities nor a sufficient appropriate supply of affordable housing.
- **We propose a new approach which will help increase the building of affordable, social rented or low cost ownership homes to 100,000 per year – 1 million extra units by 2020.**
- 4.1.4 Liberal Democrats have developed community land auctions (CLAs), as a way of tackling this problem more effectively. The aim is to ensure existing residents and communities gain much more from appropriate local developments and, by making planning less confrontational, to speed the process up. Since CLAs would represent a significant reform of the local planning system, we would pilot it before taking the decision as to whether to expand it nationwide.

- 4.1.5 Under this reform, local authorities could initiate community land auctions from time to time. All land owners would be invited to state the price - if any - at which they would be happy to sell their land. By bidding, they give the council the right to buy the land at that price, for a preset length of time, say a year. The council would consider, with full public consultation, which land offered, if any, was suitable for development, as currently happens with the local plan. The council would then apply for planning permission. Planning permission dramatically increases the land's value - by as much as £2.75m per hectare - allowing the council, after planning permission is granted, to buy the land at the sealed bid price, before immediately selling it on at the postplanning permission price, or transferring it to an RSL, mutual housing organisation or other similar organisation.
- 4.1.6 At current building levels and land prices, we estimate councils would raise over £10bn a year from community land auctions - to use for housing, local services, or halving local taxes. The prospect of much better local services or much lower local taxes gives local communities a reason to support, rather than oppose new housing. This in turn helps both the industry, and those who are in need of housing.
- 4.1.7 It is important to understand that CLAs would not force councils to accept development where they do not want it. Councils would not simply accept the lowest priced land that they are offered, but instead take into account all elements relevant to good community planning policy – the location, propensity to flooding, infrastructure, effect on other communities, and so on. Community planning policy remains at the heart of this system, just as it is today.
- 4.1.8 Community Land Auctions would replace Section 106 agreement for future developments, since the gain that is captured for the community by a section 106 agreement would be encompassed in the more open process of the auction. This increases certainty for the industry, since it gets rid of the time consuming current system of haggling over section 106 agreements. CLAs will also reduce the opportunities for corruption, since all land available, and the prices wanted for it, and the conditions imposed, would be open to inspection by all members of the community.
- **We will free up the planning system, devolving control to local government and give local communities more incentive to permit development in their areas.**
- 4.1.9 However, more public land also needs to be made available at a reasonable price in order to achieve a target of one million affordable new homes by 2020. In Scotland, the Forestry Commission has taken a lead in making surplus plots of land available for affordable housing development in rural areas. Vast quantities of land across the UK are owned by public authorities including local authorities; government departments -particularly the Ministry of Defence and quangos such as British Waterways and the Forestry Commission- some of which is not being utilised for the purpose of the organisation. Liberal Democrats would make clear that all public authorities would be expected to make available surplus land for affordable housing at significantly below best market value, where a local need can be demonstrated.

- **We will expect public authorities to make suitable surplus land available for development.**

4.1.10 Consequently, instead of the rising cost of housing benefit, we believe that these policies would cut the housing benefit bill by £400m per year on a cumulative basis – and by around £2bn per year after 5 years. This is on cautious assumptions that the housing benefit bill would merely be stabilised at existing levels. The real gains could be even greater.

4.1.11 Disabled people suffer particularly from a lack of housing appropriate to their needs, and these problems are accentuated where what little accessible public housing for rent that exists is let to tenants who do not need the accessibility features. We have two proposals to tackle this problem:

1. Improved building regulations: a survey of physically disabled people showed 40% of them found that their housing situation made them unnecessarily dependent on others. Lifetime Homes Standard (LHS) features 16 design standards which help ensure that the house is accessible and easily adaptable to meet future needs, helping more disabled people to gain independence. This would require changes to part M of the buildings regulations, so should be consulted on and subject to regulatory impact assessment.

- **We will consult on incorporating the Lifetime Homes Standard (LHS) into building regulations**

2. Establishing an accessible housing register would enable local authorities to re-let appropriate housing far more effectively. Without the records such registers hold, adaptations fail to be reused with subsequent occupants, particularly in private sector housing. Where this is already being used (e.g. Liverpool, Glasgow, and Reading) it has achieved more efficient use of accessible properties. Whilst there is a cost to local authorities in maintaining such registers, savings in care costs follow from more disabled people living in suitable adapted accommodation.

- **We will require local authorities to maintain an accessible housing register.**

## 4.2 Ending 'No Hope' Communities

4.2.1 Existing needs-based housing allocation policy and the building of large social housing estates has led to concentrations of deprivation in particular neighbourhoods and estates. This has had huge implications for poverty, aspirations and social mobility, as poor facilities, low levels of employment and high levels of crime and anti-social behaviour become entrenched. Berube's research, *Mixed Communities in England*, clearly indicated the key disadvantages of concentrated deprivation: high levels of worklessness limit job opportunities and aspirations; schools struggle to deal with the needs of large intakes of deprived children; increased levels of crime and anti-social behaviour are experienced; and

there are exacerbated health inequalities. Such disadvantages and concentration of deprivation can become self-perpetuating – a downwards spiral of decline has developed in some areas because physical decline discourages investment, encouraging those who are able to move out in search of better housing, facilities and opportunities. This serves to further undermine the vitality and economic and social health of the area. This represents dramatic changes in the diversity of many neighbourhoods from 30 years ago when approximately a fifth of the richest 10% of the population lived in social housing. Since 1981, the proportion of working age social housing tenants in full-time employment has fallen from 67% to just 34%. Yet as John Hills and Kate Barker highlight, in order to encourage socially and economically vibrant neighbourhoods, these need to include people of diverse social backgrounds, incomes and ages.

4.2.2 Joseph Rowntree Foundation research, *Mixed Economies: Success and Sustainability*, overwhelmingly found that mixed income neighbourhoods were associated with fewer of the problems and disadvantages which characterise exclusively low income areas. As a result of fewer disadvantages and without the prejudice and stigma of being from a ‘bad neighbourhood’, people were better able to break out of cycles of poverty and deprivation. The Rowntree Foundation has had particular success in community regeneration through its SAVE, *Selling Alternate Vacants on Existing Estates*, project which aims to create mixed communities. The project allows for 50% of re-lets to be offered for sale on the open market and invests the profits in housing elsewhere. Liberal Democrats believe that far more needs to be done to improve the diversity of our communities and to avoid the enormous problems associated with concentration of deprivation. We need to look far more closely at how and where social housing is developed. Social housing has too often been designed as large estates, yet it is very difficult to create diverse communities within an estate structure. Instead we will encourage councils and housing associations to ensure that new social housing is far more diverse than in the past. In addition, in order to facilitate the diversification of existing communities, we will follow on the success of the SAVE project and facilitate the selling off of existing social housing, on becoming vacant, for ownership or part ownership (as opposed to private rent), with the proceeds to be re-invested in new social housing elsewhere. The allocation of social housing also contributes to the concentration of deprivation. Currently local authority housing allocation policy is bound by a rigid, centrally dictated needs based allocation framework. Allowing local authorities greater freedom to develop their own ‘local lettings’ policies – particularly on large estates – would give them the freedom to combat the concentration of deprivation and take positive steps towards promoting mixed communities while continuing to address housing needs.

- **We will encourage councils and housing associations to ensure that in the future new social housing is more diverse than in the past, and not concentrated in huge estates.**
- **We will facilitate the selling off of existing properties on large estates for ownership or part ownership (not for private rent), with the proceeds being re-invested in new social housing in diversified areas.**

- **We will permit more ‘local lettings’ policies in difficult neighbourhoods, where allocation is not simply on the basis of need.**

4.2.3 Anti-Social Behaviour is undoubtedly a problem in many neighbourhoods, and disproportionately so in areas of concentrated deprivation. Our policy paper 78 ‘*Together We Can Cut Crime*’ sets out a number of proposals to effectively reduce anti-social behaviour and tackle its root causes. However, there is more we can do through housing policy to tackle anti-social behaviour. In particular, we believe that the use of introductory tenancies can be a powerful tool in combating anti-social behaviour.

- **We will encourage introductory tenancies for all social rented housing to allow swift action against anti-social behaviour.**

4.2.4 We also recognise that it is vital to invest in existing housing stock as well. The results and consequences of past failure to invest are clear, yet despite the advantages of regenerating existing properties there are significant barriers and few incentives to do so. In comparison to new build which is not only VAT exempt but benefits from other indirect subsidies such as new infrastructure, programmes of improvement and repair to existing properties which are subject to 17.5% VAT are much less attractive. Liberal Democrats will bring more empty homes back into use and regenerate existing deprived neighbourhoods by cutting VAT on repair and renovation and equalising it at a new lower rate for both build and repair.

- **We will encourage reinvestment in existing housing by cutting VAT on renovation and repair.**

4.2.5 At the end October 1996, Single Room Rent (SRR) was introduced into the housing benefit scheme for single people under the age of 25 living in privately rented accommodation. Since then, the maximum rent taken into account in calculating Housing Benefit entitlement is the mid-point in the range of rents for one-room accommodation with shared use of kitchen and toilet/bathroom and neither exclusive nor shared use of a living room. The Joseph Rowntree Foundation in its 1998 report, *The impact of housing benefit restrictions on young single people living in privately rented accommodation*, found that the introduction of SRR for a significant minority meant a shortfall between their Housing Benefit and their rent. In some cases this shortfall was unsustainable. The report also concluded that SRR had created yet more discrimination towards younger people in the private rental market and that some feared for their safety as they could no longer afford to rent in small houses with one or two friends but instead had to rent in large multiple occupancy houses with strangers. We believe that the SRR has unfairly discriminated against younger people. We will therefore abolish the single room rent.

- **We will abolish the single room rent which obliges younger people to live in shared accommodation.**

### 4.3 Rural Poverty, Rural Communities

4.3.1 Poverty and social exclusion are not just issues for urban communities. Indeed, in rural areas, there are other forms of deprivation – lack of local services and amenities, and often a lack of public transport. With rural services increasingly under threat, there is a risk that those on low incomes will become even more isolated and excluded. In recent years, property prices in many rural areas have soared – pricing many local people out of the property-to-buy and property-to-let market.

We will:

- Give more freedom to Councils in rural areas to permit the building of extra housing within sustainable communities in order to help people to remain within their counties and in close proximity to places of work.
- Require service providers to be creative in the provision of outreach services. For example, rather than expecting expensive journeys to distant provision encourage consultants to provide clinics in community.
- Invest in adequate public transport, including buses, and support creative alternatives such as 'Wheels to Work' and car pooling schemes.
- Encourage and support local action to help sustain rural services, such as post offices.
- Rural-proof all anti-poverty policies to ensure that all government action on poverty addresses the differing needs of rural areas.

## 5. Employment Policies: The Right to Work for All

- 5.0.1 The Government boasts of Britain's employment record, but in 2006 9.4 million people of working age in the UK were not in work – a quarter of the potential workforce. This included 2.7 million on an incapacity benefit, and 1 million unemployed. In reality, the employment rate in Britain is no higher now than it was at the peak of the last economic cycle in 1990.
- 5.0.2 Indeed, the employment rate for men is actually lower now than it was in the 1970s. In 1976, the male employment rate was 89%, and the female rate was 59%. Only the rise in female employment has kept the overall employment rate static. The male employment rate plunged 10% from 1976 to 1982, and has never recovered – in 2006 it still stood at 79%. Employment rates for disabled people, lone parents, ethnic minority groups, and older workers remain stubbornly low. Moreover, it is the poorest and those with least qualifications that have seen their employment rates fall furthest. Employment is now unequally distributed. There has been a massive increase in the number of households with two adults earning, but with a sizeable group of no-earner households. Six out of ten people of working age who are not in work are in poverty. This is why helping people to find adequately paid work is so important.
- 5.0.3 The number of people on incapacity benefit has risen dramatically too, from around 800,000 in 1979 to a staggering 2.7 million by the 1990s – almost three times the level of unemployment. Britain has one of the highest rates of unemployment through incapacity of any developed country. The composition of those on incapacity benefit has changed markedly – around 1.1 million of the 2.7 million are now classified as incapacitated due to mental health problems and depression. This has almost doubled since 1995. They can be one of the hardest to help groups. Tony Blair made it a priority to help people on incapacity benefit back to work – but the Government has failed to deliver. Any effective fight against poverty and inequality requires effective pathways into work which meet the needs of the individual.

### 5.1 Creating opportunities, beating poverty

- 5.1.1 Liberal Democrats believe that work is, for most people, the best route out of poverty. However, work has other benefits too, in terms of confidence and mental well-being. Getting back to work is, in most cases, good for the individual and their family. We need a concerted effort to reduce benefit rolls and increase employment among disadvantaged groups – with a target of 2 million more people in work by 2020.
- 5.1.2 Improving skills is a major policy challenge we must meet: almost 1 million people on incapacity benefits and 40% of lone parents on income support have no qualifications. However, active support for those able to work is also vital. When, as

a Liberal, Churchill helped to initiate the first “Labour Exchanges”, the role of the state in helping people to find employment was a modest one. Today more help is available, but the effectiveness of back-to-work support is limited by two factors: the ability of the state to provide services that meet the needs of the individual, and the link between the benefit claimed and the sort of help that can be accessed. Neither factor serves the interests of Britain’s 5 million workless people. JobCentre Plus aspires to provide a pro-active service to get people into employment. But the reality is much less impressive than the spin. Too many people are still pushed into ineffective and inappropriate generic programmes or, in the case of incapacity benefit claimants, simply abandoned. Those schemes that are effective – such as Pathways to Work – are restricted through lack of funds and poor contracting processes. Research for the National Audit Office found that the current system is good at assessing benefit entitlement, but not good at assessing the needs of the individual. So access to help managing a medical condition is only available to incapacity benefit claimants, even though many Jobseekers would benefit as well. Liberal Democrats want government to play a much more pro-active role in helping break down barriers to employment for all claimants, by the use of the voluntary and private sector and ensuring that each individual receives the right support. Consequently, we propose five key reforms to employment support:

- 5.1.3 Through working in partnership with already successful and proven voluntary organisations, these reforms could bring about significant reductions in the cost of the welfare system – saving up to £3 billion each year. A proportion of these savings will be returned in support to the hardest to help groups, especially the severely disabled.
1. We believe JobCentre Plus in its current form needs to be replaced with a slimmed down ‘First Steps Agency’. The new agency will be a ‘one stop shop’ for benefit claims -responsible for registering and assessing benefits claims, and will have a responsibility to offer advice on the full range of benefit entitlements – including tax credits, housing benefit, and local taxation. The agency will administer a comprehensive national job search database of current vacancies but will no longer be responsible for providing employment support itself. Instead it will be responsible for linking claimants with appropriate employment support (delivered by the private and voluntary sector) within 3 months of their claim. Experiences in Australia have shown that by creating a one stop shop for benefits, take-up rates have improved. Also, separating benefits claims from employment support which is run by local, voluntary and private organisations (who have won a competitively tendered contract) removes the problem of people seeing employment officers as benefit policemen and has created innovation and better tailored back to work support, which in turn has dramatically reduced unemployment. This ‘First Steps Agency’ will work in partnership with the voluntary sector to delivery appropriate benefit advice and support.
    - **We will establish a new ‘First Steps Agency’ responsible for all benefit claims and for identifying suitable employment support.**

2. We will give the voluntary and private sector responsibility for delivering the full range of back-to-work support, tailored to the needs of the individual claimant. Research from the UK and experience in Australia has shown that involving not-for-profit and private providers in this way delivers better outcomes for the claimant and better value for the taxpayer. The government is moving in this direction in Pathways to Work areas, and the Freud Review proposed further use of external providers for the most severely disadvantaged. We believe that the advantages of this sector are such that all claimants should be able to benefit from its proven innovation and responsiveness. A powerful system of monitoring and sanctions/rewards for providers will need to be put in place to ensure consistently high standards. To ensure that local needs are reflected in the choice of providers, local authorities will be involved in the contracting process alongside the Department of Work and Pensions. However, power to sanction claimants will not be given to private or voluntary providers, but will remain with "First Steps".

- **We will use the voluntary and private sectors to provide high quality, tailored, back to work support.**

3. We will introduce a new Single Working Age Benefit to replace Jobseekers Allowance and Incapacity Benefit. All new working age claimants will be on the new benefit. This change will help to break down the barriers to certain types of support that existing claimants face. Each claimant will be given a 'labour market disadvantage assessment', to assess the specific barriers to work that they face. These might include disability, poor health, family issues, rurality, age, and local labour market conditions. In this way, the range of barriers can be understood and addressed, and claimants can be taken through an appropriate, tailored, back to work support with their responsibilities to take part in their programme adjusted accordingly. A more detailed assessment should be available to assess the needs of sick and disabled claimants, and the specific additional costs of disability should be met through the extra costs system, so that additional financial support to help cope with disabilities is not dependent on being unemployed. Therefore, in parallel with the introduction of the Single Working Age Benefit, we will use the funds released to reform the disability living allowance system to better reflect the range of extra costs of disability. In the 21st century, the additional costs of communication should be reflected in a new communications component. Consultation with disability groups will be necessary to ensure this change is fair and reflects the full range of needs of disabled people.

- **We will introduce a new Single Working Age Benefit and reform the disability living allowance.**

4. For too long, support for measures to help the most disadvantaged back to work has been hamstrung by the Treasury which fails to see the value in investing for future saving. Most recently, only £360 million has been allocated to the roll-out of the Pathways to Work pilots, less than half of what is needed. Yet through increased investment in back to work support, we would make savings in benefit

claims. We will allow the Department of Work and Pensions to retain the savings and shift a proportion of them to provide additional investment in employment support. We will also establish a 'Spend to Save' fund which will allow investment on the basis of audited expected future savings. These two measures will allow successful providers of back to work support to expand, rather than having to close programmes to new entrants half way through the year because the money has run out. We believe that upfront investment will particularly yield results in helping those with mental health problems back into work. With 40% of new incapacity benefit claims now on the basis of mental ill-health, improving mental well-being is critical to raising the employment rate. We will deliver on the recommendations of Professor Layard at the Centre for Economic Performance at the London School of Economics, which have shown how implementing the National Institute of Clinical Excellence guidelines on condition management for treating depression and anxiety would reduce the numbers on incapacity benefit. There is an upfront cost of £70m, rising to £300m per year, which would eventually produce significant savings.

- **We will allow 'spend to save' funding of welfare to work and deliver extra help to those with mental health conditions.**

5. We are committed to working to involve employers in helping hard to reach groups. The government has failed to put in place a strategy for engaging with employers about the benefits to them of bringing formerly excluded groups back into the labour market. Organisations like the Employers Forum on Disability have shown what can be achieved by making businesses more confident about employing disabled people. Indeed, the Access to Work scheme – providing financial and practical support to employers and disabled employees – is one of this government's unsung success stories, but it is still little known among small businesses and its £60 million budget too small for a programme that delivers £1400 net benefit to the Exchequer for every person helped. We will expand this programme, publicise it better, and build access to work entitlements into the disability benefits assessment process so that claimants know their entitlement when talking to potential employers. Engagement with local employers would be a specific contractual responsibility of the new external back to work support providers.

We will examine the case for giving providers discretion to pay employers an initial employment subsidy (from previous benefit entitlements), for no more than 6 months, in recognition of the lower productivity that may occur while training and acclimatisation to work is taking place. Experience in New Zealand and Australia has shown that this can be effective, provided there are robust sanctions in place to identify and punish abuse. We will also help social enterprises, charities and co-operatives which help people with disabilities to get a 'first' job. It is often this first step into the labour market which people find to be the hardest. However, an essential corollary of these policies is to change attitudes, particularly towards mental ill health. To this end we will also launch a major national advertising and marketing campaign over a 5 year period to improve public understanding of mental health issues and reduce the pervasive

prejudice that too often acts as a barrier to work for this group. A similar programme in New Zealand has delivered a huge change in public opinion.

- **We will increase engagement with employers to bring traditionally excluded groups into work.**

5.1.4 These reforms could bring about significant reductions in the cost of the welfare system – saving up to £3 billion each year. A proportion of these savings will be returned in support to the hardest to help groups, especially the severely disabled.

## **5.2 Barriers to work**

5.2.1 Measures to improve access and opportunity to work are only part of the solution of helping more people into employment. Many people on low incomes face significant disincentives and barriers as a consequence of the operation of the tax and means-tested benefit system. Up to 1.7m people face marginal withdrawal rates of over 60% when they either return to work or increase their working hours. Despite Labour rhetoric to the contrary, as the Institute for Fiscal Studies (2006) concluded, work simply does not pay for many. In addition to high withdrawal rates, the excessive complexity of tax credits, for example, means that those increasing their income can end up with money being demanded back by the Treasury. Also, for those making the transition back into work, immediate cessation of benefits can leave them with serious shortfalls in the short term. For those who have conditions which may mean they have to be out of the workplace at regular intervals, the length of time it takes to claim benefits when leaving the workplace can make it impractical to work at all. We believe it is vital to ensure that work does pay.

5.2.2 When starting a new job many people face new short term costs, such as having to buy appropriate clothing or simply having to buy a weekly or monthly public transport ticket. Changing benefit ‘run on’ rules to allow people returning to work to continue to receive benefits for 2 weeks would ensure that people are not put in financial hardship because they have started employment.

- **We will allow benefits to run on for 2 weeks after entering employment.**

5.2.3 Liberal Democrats would also speed up the processing of housing benefit claims in order to reduce the barriers in moving from welfare into work. We would set a fast-track target of 7 days to process all housing benefit claims for those going into employment. This would have the advantage of making people genuinely ready to enter the labour market without the fear that in the short term they would be put in a position where they could not make ends meet.

- **We will speed up housing benefit claims.**

5.2.4 The high prevalence of means tested benefits has created a benefit system where millions have to apply for highly complex benefits which are prone to fraud and error. It also means that almost 1.7 million people face an effective tax rate of 60% or higher, undermining work incentives. By phasing out means testing Tax Credits

for those higher up the income scale and abolishing the unfair Council Tax (thus Council Tax Benefit) we will massively reduce the number of people at the mercy of complex, error prone and poorly understood means tested benefits.

- **We will scale back the coverage of the means-tested tax credits, including abolishing Council Tax and therefore Council Tax Benefit.**

5.2.5 We would seek to increase the very low level of the earnings disregard, which has been stuck at the level of just £5 for a single person for over a decade. The Government throughout its pension reforms has claimed it wants to create a society where there is an end to cliff edge retirement and instead a gradual phase out of work. If this is to happen, however, we need more support for older workers, both in terms of re-training and in terms of proper enforcement of age related discrimination. Workers over 60 can currently receive pension credit, but they lose this if they chose to work.

- **We will increase opportunities for older people to work without losing pension credits by raising the level of earnings disregard from its current level of £5.**

### **5.3 Pay: The Minimum Wage**

5.3.1 The minimum wage has helped to make work pay for people on low incomes, without any evidence of significant job losses. The Government established an independent Low Pay Commission to advise on the levels, structure and uprating of the minimum wage. The Low Pay Commission is made up of representatives of unions, the business community and academics.

5.3.2 At present there are three separate minimum wage rates: an adult rate for those aged 22 and above; a Youth Development Rate for those aged 18 to 21; and a 16-17 year-old rate. For 2007, the recommended hourly rates are, respectively, £5.52, £4.60, and £3.40.

5.3.3 The Low Pay Commission has recommended to the Government that the Adult Rate should begin at age 21, but the Government has so far ignored this advice. The Low Pay Commission has also stated that: "In the light of evidence on the labour market prospects of young people, we remain convinced that there continues to be a need for lower National Minimum Wage rates for younger workers as a protective measure." (2007 Report). The LPC has noted the relatively poor recent performance of young people aged between 16 and 21 in the labour market.

5.3.4 Liberal Democrats support the National Minimum Wage, and agree that a Low Pay Commission is best placed to report regularly on the level of the minimum wage which strikes the right balance between fair pay and avoiding job losses. We agree that advising on the minimum wage rate and structure is best done by an independent expert panel rather than by politicians. In the past, Liberal Democrat policy has been to have a single minimum wage rate for all ages. This, however, is not consistent with the current recommendations of the Low Pay Commission. The

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Working Group therefore offers two options:

A) Liberal Democrats note the recommendation of the independent Low Pay Commission that there continues to be a need for lower minimum wage rates for younger workers, to protect their jobs. We note that countries such as Australia, Belgium, the Netherlands and France also have lower rates for young people. We note, however, that the Government has ignored the LPC's advice to extend the adult rate of the minimum wage to those aged over 21. Liberal Democrats would therefore retain the 16-17 minimum wage rate and the Youth Development Rate, but we would extend the Adult Rate to all those aged over 21.

**OR**

B) Liberal Democrats note that a number of countries have no lower rates for younger workers. We believe that pay rates should be the same for all those who have reached age 16. We would therefore abolish the Youth Development Rate and the 16/17 year-old rate.

## 6. Reform of Pensions, Benefits and Tax

- 6.0.1 Since 1997, the Labour Government has massively increased the use of means-testing. There are now over 22 million means-tested benefits in payment - including 6 million households on tax credits, over 4.2 million on income support and minimum income guarantee, 2.7 million on pensions credit, 4 million on housing benefit, and 5 million on council tax benefit. This excludes the educational maintenance allowance, child trust fund and other benefits. Labour has succeeded in drawing hundreds of thousands of people into the complex web of the benefits system through an approach to means-testing which is neither cheap nor well-targeted. Tax credits are now paid on incomes up to £60,000, costing the public £17 billion a year. Moreover the means-testing system now undermines the incentives to work, save, be honest, and even for couples to live together. Many poor people –those most in need of help- never receive their entitlements. As John Hills argues, policies that are aimed at avoiding increases in explicit direct taxation are imposing very high marginal tax rates on the lowest income proportion of the population. And since 1997, the number of those who lose over £6 in every £10 of extra employment income has soared from around 750,000 to 1.7 million, with the greatest impact affecting the poor.
- 6.0.2 There is a growing consensus that the strategy of mass means-testing has reached its limit. The report of the Pensions Commission estimated that means-testing of pensioners could reach 80% by 2050 – and the Government has now been forced to change course, though new Government plans still leave as many as 50% of pensioners subject to means-testing. Liberal Democrats believe it is imperative that the tax and benefit systems be simple and clear to ensure everyone is able to understand and claim what they are entitled to, without creating uncertainty and opportunities for dishonesty.

**Liberal Democrat reforms aim to reduce means-testing and restore incentives to work, save and be honest – scaling back the number of means tested benefits by up to 10 million and reducing poverty.**

### 6.1 Simplifying the system

- 6.1.1 Liberal Democrats believe it is imperative that the tax and benefit systems be simple and clear, to ensure everyone is able to understand and claim what they are entitled to, without creating uncertainty and opportunities for fraud and error. Yet from 7 basic benefits in operation between 1948 and 1968, we now have 51 different benefits with over 450 different rates, tapers, and disregards. The benefits system has become so complex that few ordinary people are able to understand how the system works, what they can claim and how to do so. Consequently, the take up rate of many means-tested benefits is far lower than they should be; up to 4 in 10 pensioners do not claim the Pensions Credit they are entitled to with evidence that these are often some of the poorest pensioners. Equally, Child Tax Credits have considerably lower take up rates than Child Benefit, for which take-up is almost 100%.

6.1.2 We would establish a 'Benefits Commission' to carry out a fundamental overhaul of the system - aiming to cut the number of benefits in half, simplify the process of claiming and help the transition to work. The Commission would also have responsibility to periodically report on the level of benefits and conduct a poverty audit to assess the impact of benefits on the poverty levels. The benefits system must act as a real guarantee of security below, not as a cap on ambitions above.

- **We will establish a Benefits Commission to report on radically simplifying the benefits system**

## **6.2 Children and Families**

6.2.1 Child Poverty in the UK tripled under the last Conservative Government, and the 2007 UNICEF Report ranked Britain bottom of 21 countries on child well-being. The report has highlighted the impact of family breakdown on British children. The number of children in lone parent families is up from 11% in 1979 to 24% in 2006. Almost half of children in lone parent households are in poverty. Consequently, many British children are growing up in poverty, and more are growing up in less stable and supportive family environments. The recent UNICEF report also notes that while single parent families are in many cases capable of bringing children up well, the increased likelihood of disruption and instability has a serious impact: "at the statistical level there is evidence to associate growing up in single-parent families and step families with greater risk to well-being... such risks appear to persist even when the substantial effect of increased poverty levels... have been taken into account." While there is little evidence that previous tax allowances for marriage were successful, or that proposals for Transferable Tax Allowances would be any more successful, there is now strong evidence to suggest that the existing tax credit system penalises couples who want to live together, actively discouraging partners to live together and encouraging dishonesty in reporting individual circumstances.

6.2.2 Early pregnancy is also linked to an increased likelihood of a child being brought up in poverty and deprivation -UNICEF (2007) concluded that: "A teenager doing well at school and looking forward to an interesting and well-paid career....is likely to feel that giving birth would de-rail both present well-being and future hopes." Tackling low skills and aspirations is therefore essential for tackling issues such as teenage pregnancy and lone parenthood. There is a need for better sex and relationship education in our schools as set out in Policy Paper 68 *Healthy Communities, Healthy People*, (2004).

## **6.3 Child Poverty Target 2020**

6.3.1 Poverty and deprivation in childhood undermines opportunity and freedom. The disadvantage begins at birth and continues throughout education and adult life, affecting work, health and well-being. Child poverty is still too high in Britain. In this Paper we commit the Liberal Democrats for the first time to the target of eliminating UK child poverty by 2020 - defined as reducing child poverty to amongst the lowest

levels in the European Union. However, Labour's 'one club' reliance on means-tested tax credits to deliver this target is unsustainable – and it would lead to eccentric distortions to the benefits system. The Institute for Fiscal Studies has also warned that increasing means-tested Child Tax Credit has reduced child poverty but "...at the cost of damaging work incentives" (Adam et al 2006). The Joseph Rowntree Foundation has also noted that if the Government relied primarily on tax credits and benefits to meet the child poverty targets it would have to add about a further £28 billion (1.6% of GDP) to planned annual spending, an unlikely scenario.

6.3.2 Liberal Democrats believe that the Government should use a wider range of measures to reduce child poverty including: increasing employment rates, cutting the tax burden on those on low incomes, higher non means-tested benefits and cutting costs faced by low income households. Educational outcomes are particularly vital in the long term, and the impact of parental income on education is small compared to the overall gap in attainment between rich and poor children. Extra benefit spending will not by itself close the educational attainment gap. Instead, initiatives to improve skills and employment opportunities are vital to tackling the problem of persistent poverty and must go hand in hand with direct steps to improve disposable incomes.

6.3.3 Liberal Democrats propose to make greater use of the non means-tested Child Benefit, to deliver the child poverty targets. The take up rate for child benefit is almost 100%, and it is cheap to administer (£10m per year versus almost £500m per year for tax credits). Tax Credits are means tested benefits and as such suffer from the familiar problems of means tested benefits of complexity, high administration costs and high levels of fraud and error yet the family element of Child Tax Credits is almost universal, currently available to almost nine-tenths of all families (families with incomes of almost £60,000). We believe it would make far greater sense to remove millions of families from Tax Credits who currently receive the family element and instead pay it to all families through Child Benefit. This means every family would receive an increase in Child Benefit of up to £5 per week, through the elder child rate of Child Benefit, helping to reduce the number of people living in poverty by 400,000; 250,000 adults and 150,000 children. We would like to see further investment in improved Child Benefit directed at second and subsequent children to help remove larger families from poverty.

- **We will raise the level of child benefit by up to £5 for every family reducing the number of people living in poverty by 400,000.**

## 6.4 Tax Credit Reform

6.4.1 Tax credits have helped reduce poverty. However, tax credits have also caused considerable problems. £2 billion per year has been overpaid to almost 2 million people – many of whom have been driven further into poverty and debt by being forced to repay them. In 2005, the Parliamentary Ombudsman made 12 recommendations for reform – most of which have not yet been implemented. She asked Parliament to consider "whether a financial support system which includes a degree of inbuilt financial uncertainty can meet the needs of this particular group of

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[low income] families". We agree. The existing system of tax credits is highly unstable – and is extremely expensive to run. Tax credits, furthermore, are paid to people with incomes of as high as £60,000 per year – they are badly targeted, unnecessarily drawing more and more people into means-testing. We propose four major reforms to the administration of tax credits which will establish a system which is far more stable and effective.

1. Return to stable, fixed, six monthly awards. This will end the overpayments crisis, reduce administration costs, and reduce the costs of the £25,000 disregard for increases in incomes. This will save hundreds of millions of pounds per year.
2. Reverse the burden of proof in cases where overpayments have been caused by official errors – people will not have to repay unless it is clear that they should have been aware of the mistake.
3. Introduce a right of appeal to an independent tribunal before recovery of overpayments.
4. Simplify the tax credit award notice, with clear information to check.

6.4.2 We also believe that it is vital to focus tax credits on those who really need this support and avoid creating unnecessary complexity for others. We will increase the threshold at which people start to lose their tax credits, but at the same time increase the taper rate at which tax credits are withdrawn. This will ensure that those who need tax credits the most will continue to receive them, but we will take over 2.5 million people off means tested tax credits altogether. These changes, alongside the removal of the income disregard and administrative savings, will save over £3 billion per year as well as funding our £1.5 billion Pupil Premium. These changes would enable us to raise the almost universally taken-up Child Benefit by £5 for every family reducing child poverty by 150,000.

- **We will better target tax credits by increasing the taper rate taking over 2.5 million people off means tested tax credits.**

6.4.3 There is little evidence that previous tax allowances for marriage were successful, but there is now strong evidence to suggest that the existing tax credit system penalises couples who want to live together, encouraging people to live apart or be dishonest in declaring individual circumstances. The benefits system takes account of the extra costs of couples, however the current tax credit system does not. Consequently, we will aim to stop the tax credits system penalising parents and partners who live together by introducing a couple's premium into tax credits when it is financially viable. This would also help reduce high child poverty rates in homes with couples.

- **We will stop penalising couples through the tax credit system.**

- 6.4.4 This package of reforms would produce net savings on tax credits of over £3 billion. All of this would be re-invested in tackling child poverty – half would be used to increase child benefit and half would be spent on education through the Pupil Premium.

## 6.5 Tax

- 6.5.1 Britain's tax system combines progressive income taxes with regressive indirect taxes and council tax. The average tax burden as a percentage of income varies little across the income range, and averages around 35.1% (2004/05). The richest fifth of the population actually pay a marginally lower share in tax than the poorest fifth reflecting generous tax allowances for the rich and the regressive indirect taxes. Liberal Democrat tax policies set out in policy paper 75 *Fairer, Simpler, Greener* (2006) and updated in policy paper 81 *Reducing the Burden* (2007) seek to make the tax system fairer and to boost work incentives. Our proposals are to reduce income tax for low earners and abolish the unfair council tax replacing it with a tax based on income. We would pay for this by a series of changes including reforming pensions' tax relief. This presently costs almost £15bn (net) per annum, but 50% of the relief goes to the top 10% of earners. We believe that pensions' tax relief should be structured so as to avoid the double taxation of pensions saving, but we see no reason to give tax subsidies to high income groups. We would therefore consult on introducing a single rate of tax relief set at the basic rate of income tax. We would also end the loopholes on Capital Gains Tax, by ending taper relief, and we would increase the taxation of activities which cause environmental damage, including air travel – which is disproportionately undertaken by higher income groups.
- 6.5.2 However, the most important of these proposals from a poverty standpoint is the abolition of the Council Tax – Britain's most regressive tax. This takes up to 10% of the incomes of the poorest households, but less than 1% of the richest. Although Council Tax Benefit is available to lower income groups, the take-up is particularly poor – at little better than 50% for pensioners. In 2003/04, estimated entitlement to Council Tax Benefit was around 7.1 million people – but only 4.6m were claiming. Furthermore, as Council tax benefit is a means-tested benefit it is withdrawn as individuals go back into employment – which damages work incentives. Replacing council tax would therefore reduce poverty and improve incentives to work.

## 6.6 Disability Benefits and Carers

- 6.6.1 Liberal Democrats are committed to the principle of independent living as the foundation of our policy for disabled people. We reaffirm those proposals made in the Independent Living policy paper (2006) which sets out in detail the implications for long-term policy development and represents our ambition to significantly improve the position of disabled people in society.
- 6.6.2 Independent living does not mean unassisted living, but disabled people having the same choices and freedoms as non-disabled people to play their part in society as full and equal citizens, with the rights and responsibilities that entails. In the context

of this paper, we note that in a fair society being disabled should not mean a person is more likely to be in poverty than non-disabled people. However, 29% of households with a disabled adult are in poverty compared to 17% of households without a disabled adult. It is therefore not surprising that research by the Department for Work and Pensions has found that the extra cost to disabled people are not currently met by the support they receive through benefits and services. Through this paper, there are proposals that will improve the position of disabled children, improved housing for disabled people, and provide additional support for disabled to get into work. People with disabilities are at higher than usual risk of poverty. In addition, we propose changes to the benefits system as it affects disabled people. We recognise the vital role played by carers, the pressures which caring creates, and the money which is saved for the Exchequer by carers. Many carers are women, and the sacrifices which they make together with the low level of benefits helps to explain part of the income gap between men and women. Many older carers, including many women, will benefit from our proposals for immediately linking the basic state pension to earnings and introducing a Citizens Pension.

6.6.3 In the paper we have brought forward proposals to reform disability living allowance to enable individuals to continue to claim support when in work to meet the additional costs of disability. However, as affordable, we also seek to end the current rules which stop new claims for the mobility component being made by those over state pension age (while existing claims in payment continue).

6.6.4 Carer's Allowance is regarded as a replacement benefit for someone who cannot work or can only work much reduced hours because they are caring for someone who is either disabled or needs someone with them at all if not most of the time. Carer's Allowance is set at a very low rate we will review the current level of Carer's Allowance.

- **We will review the level of the Carer's Allowance.**

6.6.5 Currently, the Winter Heating Allowance is only available to households with someone over the age of 60, many of whom value these payments highly. However, there are other groups, such as the disabled, who often spend a large amount of time within their own home who have an equal if not sometimes higher need for help with their heating bills during the winter. As such we propose to introduce the Winter Heating Allowance for severely disabled people.

- **We will seek to extend the Winter Heating Allowance to individuals in receipt of higher rate disability living allowance.**

## 6.7 Pensions Policy

6.7.1 Britain's pensions system is one of the most complex and inadequate in the developed world. It provides neither a decent safety net, nor incentives to save. In spite of the spread of means-tested pensioner benefits, 1.8 million pensioners (17%) were still living in poverty in 2005/06. The Government has set no target for any further reductions in pensioner poverty, instead talking of "consolidating the gains made since 1997." Yet the basic state pension is set at around £30 below the

level of means-tested benefits so those on low incomes who fail to claim – which is estimated to be as many as 40% of those eligible – live in serious poverty. Women, in particular, have suffered from the contributory state pensions system – with most missing out on a full basic state pension. The state second pension arrangements are so complex that few people understand them, and occupational pension provision has declined over the last decade.

6.7.2 Liberal Democrats have supported key recommendations of Lord Turner’s Pensions Commission, including: restoring the link between the basic state pension and earnings, increasing the state pension age from 2024 onwards, auto-enrolment into personal accounts and improvements in state pension coverage. However, we continue to be concerned about the low level and high complexity of the basic state pension – this leaves many pensioners in poverty, and could mean that up to 50% of pensioners are still dependent on means-tested benefits in 2050.

6.7.3 Dependence on means-testing not only exacerbates poverty for those who do not claim (in 2004/05 only 2.6 million out of almost the million entitled claimed Pension Credit) but it undermines savings incentives. Some people who may be automatically enrolled in the new personal pensions could receive negative returns from saving – in other words, even after investment returns, some people could get back less than £1 for each £1 invested. If means-testing undermines savings in the personal accounts, then it will leave those on low and middle incomes (the target audience for personal accounts) dependent in retirement on the very low basic state pension. Consequently, we believe that further pension reforms are necessary.

6.7.4 Liberal Democrats are committed to introducing a Citizen’s Pension based on residency rather than contributions, which would particularly help groups such as women and carers. This would be set at the level of the pension credit minimum guarantee (£119.05p in 2007). We would introduce this using an ‘offset’ method, so as to concentrate additional public spending on those in greatest need. This means that those people with total state pension entitlements below the Citizens Pension level would be brought up to this minimum level. The Citizens Pension will have first claim on any savings from Public Sector Pension reform and savings on housing benefit and incapacity benefit. We aim to introduce the Citizen’s Pension over two Parliaments. We will also phase out the State Second Pension, while respecting existing accrued entitlements.

- **We will aim to introduce a Citizens’ Pension over two Parliaments.**

6.7.5 We recognise that pensions have fallen behind earnings since the Conservatives decoupled pensions and earnings, linking pensions to prices instead. The Government is proposing to re-link pensions to earnings, but no earlier than 2012 and possibly even as late as 2015. By that time even more pensioners will be on means-tested benefits. To cut means-testing and pensioner poverty we will immediately restore the link between the basic state pension and earnings – this would reduce the number of pensioners on means-testing in the future, and help those who do not receive the means-tested Pension Credit.

- **We will immediately restore the link between the basic state pension and earnings.**

6.7.6 There is an increasing gap between good quality occupational schemes in the public and private sector. There are also injustices within the public sector – with higher paid employees often benefiting from extremely generous final salary provision, while lower paid employees do not enjoy the same contribution levels. We propose establishing an Independent Commission to look at the affordability, design and sustainability of Public Sector Pensions. An Independent Commission would produce recommendations based on facts and not prejudice. Our aim is to maintain good quality pension provision in the public sector, but this must be fair and affordable. At present, some schemes are robust and affordable (for example, the local government scheme is both funded and has a moderate employer contribution rate), while other schemes (such as MPs and Judges) look unsustainably expensive. The tax payer cannot be expected to underwrite unfair and unaffordable levels of contributions. Public Sector Pension costs are expected to rise by almost 50% as a share of GDP over the next two decades. By contrast, state pension benefits will fall as a share of GDP by 2020. Any savings from public sector pensions reform would be re-directed into improving the basic state pension.

- **We will establish an independent commission to review public sector pensions, with any savings reinvested in a higher state pension.**

6.7.7 These pension proposals would eventually remove 3.5 million pensioners from means-testing, and would reduce projected levels of means-testing from 40/50% to less than 10%. In addition, by reducing administration costs through a less means-tested pensions system, a less complex system could save around £250m per year in administration.

## 7. Cutting ‘The Poverty Premium’

7.0.1 Tackling poverty is not simply about tax and benefit reform. Low income households spend a relatively large proportion of their incomes on utility costs (9% versus 3% for the top decile) on food (16% versus 7%), and on housing (15%). Recent rises in energy prices could mean over 2 million people were in fuel poverty in 2006. In addition low income households frequently pay a “poverty premium” for essential goods and services. Pre-payment meters for utilities, for example, are more expensive than paying by direct debit or cash.

### 7.1 Utilities

7.1.1 Most utility bills have a fixed basic cost then each unit consumed is also charged for. This has the effect of penalising low income consumers as their average cost per unit of electricity or gas consumed is actually higher. This is often exacerbated by making the last unit consumed cheaper than the first and those on pre-payment meters often have to pay a higher unit charge in the first place. This massively penalises the poor. To rectify this situation we make the following proposals:

1. Encourage social charging, with lower unit prices for the first ‘block’ of basic utility usage and rising marginal prices thereafter.
2. End the differential pricing which means that those on low incomes with pre-payment meters pay a higher price. Recent figures from British Gas/Centrica PLC show that a customer paying by direct debit could expect to pay £874.44 per year, with those paying by cash/cheque paying £953.02 and those using pre-payment meters being charged £1,034.80. We will require prices to be brought down to the direct debit level for all those on pre-payment meters and those on low incomes.
3. Stop utilities from backdating price increases for token pre-payment meter customers.

### 7.2 Fuel Poverty and Housing Costs

7.2.1 According to the Government’s Fuel Poverty Advisory Group, 2.5 million households live in fuel poverty – that is, they have to spend 10 per cent of their income on household fuel in order to maintain a satisfactory heating regime. The Labour Government has statutory targets to eradicate fuel poverty as far as is reasonably practicable amongst vulnerable households by 2010 and all households by 2016 in England. However, the number of households living in fuel poverty has doubled since 2004. If we are to improve the lives of the poorest in our society, we must reduce fuel costs by improving energy efficiency. This will also play a major role in reducing the UK’s carbon dioxide emissions. We endorse the proposals put forward in policy motion ‘*Sustainable Housing*’ (March 2007) and developed in spokespersons paper ‘*Climate Change Starts at Home*’ to introduce WarmHomes packages, to take a whole house approach to energy efficiency. Householders

## Freedom From Poverty, Opportunity For All

could typically receive a £2000 subsidy towards the cost of installing “WarmHome” packages. The packages would be funded through a long-term loan secured on the property and repaid through reduced energy bills. By making available the full cost of the subsidy to energy companies that provide packages to this group, we would ensure that those on low incomes are at the top of the queue for home energy efficiency improvements.

7.2.2 We recognise that housing costs are disproportionate for those on lower incomes, we believe that the proposals brought forward in this paper to increase the supply of affordable housing will lead to lower housing costs.

### **7.3 Financial Services and Debt**

7.3.1 We are concerned that some financial service providers mis-sell financial products to those on low incomes and extend loans well beyond the capability of low income households to repay. We are also concerned about low levels of financial literacy, not least when the Government plans to automatically enrol many people on low and middle incomes into the new personal pension accounts.

We will:

1. Strengthen people’s entitlements to claim back unfair overdraft charges imposed by banks. We will also make it illegal for banks to close people’s accounts because they have successfully claimed back these charges.
2. Ensure that the Social Fund for low interest loans is adequate to help those on the poorest incomes and ensure they are not required to pay inflated interest rates for borrowing for essential items.
3. Ensure that financial service providers help to fund the deliver of free generic independent financial advice for those on low incomes.
4. Strengthen consumer protection, with heavy fines for institutions which mis-sell financial products, including using aggressive selling practices to target vulnerable groups. This would include proper regulation of high interest door-step lending.
5. Place a statutory duty on lenders not to lend irresponsibly, therefore giving borrowers a statutory defence of irresponsible lending where credit has been advanced to borrowers who the lender had good reason to suppose would default.
6. Support the development of credit unions, and ensure that these are better publicised.
7. Work to develop access to financial services through the post office network.

*This paper has been approved for debate by the Federal Conference by the Federal Policy Committee under the terms of Article 5.4 of the Federal Constitution. Within the policy-making procedure of the Liberal Democrats, the Federal Party determines the policy of the Party in those areas which might reasonably be expected to fall within the remit of the federal institutions in the context of a federal United Kingdom. The Party in England, the Scottish Liberal Democrats, the Welsh Liberal Democrats and the Northern Ireland Local Party determine the policy of the Party on all other issues, except that any or all of them may confer this power upon the Federal Party in any specified area or areas. The Party in England has chosen to pass up policy-making to the Federal level. If approved by Conference, this paper will therefore form the policy of the Federal Party on federal issues and the Party in England on English issues. In appropriate policy areas, Scottish, Welsh and Northern Ireland party policy would take precedence.*

*Many of the policy papers published by the Liberal Democrats imply modifications to existing government public expenditure priorities. We recognise that it may not be possible to achieve all these proposals in the lifetime of one Parliament. We intend to publish a costings programme, setting out our priorities across all policy areas, closer to the next general election.*

## **Working Group on Poverty and Inequality**

*Note: Membership of the Working Group should not be taken to indicate that every member necessarily agrees with every statement or every proposal in this Paper.*

Baroness Elizabeth Barker (Chair)	
David Laws MP (Vice-Chair)	
Danny Alexander MP	Cllr Jill Shortland
Charles Anglin	Cllr Mike Storey
Jacqueline Bell	David Walter
Annette Brooke MP	Jenny Willot MP
Shahbaz Husain	Cllr Catherine Whiteway
Dr Tim Leunig	
Cllr Rabi Martins	<i>Staff</i>
Cllr Fiyaz Mughal	Ruthe Isden
Cllr Ruth Polling	Chris Saunders
Andy Rickell	

Comments on the paper are welcome and should be addressed to:  
Policy Projects Team, Liberal Democrats, 4 Cowley Street, London SW1P 3NB

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