



CONSERVATIVES' INTEREST RATE RISE

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Executive Summary

This Red Book sets out the Conservatives' unfunded policy pledges which risk increasing interest rates by 250 basis points. This would increase monthly mortgage repayments on a typical home by £350.

In the Spring Budget, Jeremy Hunt committed to abolishing National Insurance Contributions (NICs), a **£46 billion** per year commitment which has been repeatedly recommitted to by Rishi Sunak, Jeremy Hunt and other prominent Cabinet Ministers. Given the prominence of this pledge, we anticipate that abolishing NICs will be the cornerstone pledge of the Conservative manifesto. However, they still refuse to explain how they will fund this policy, whether by increasing the basic rate of income tax by eight percentage points; by raising the state pension age by as much as five years; or by further borrowing.

Since the general election was called, Jeremy Hunt, the Chancellor of the Exchequer, indicated his intention to abolish inheritance tax, stating it is "against Conservative values". This would cost **£10 billion** per year.

Jeremy Hunt then confirmed his intention to cut income tax for those earning between £50,000 and £125,000, at an annual cost of **£8 billion**.

The Energy Secretary, Claire Coutinho, has announced a cut in green levies on energy bills in every year of the next Parliament after she previously backed removing them, but without any mention of how this **£5 billion** promise would be paid for.

The Conservatives have set out plans to raise revenue. In a press release, Rishi Sunak and Jeremy Hunt announced they would raise £6 billion by cracking down on tax avoidance, finally waking up to the tax gap which has swelled under their watch. We have taken this new sense of fairness at face value, despite not providing HMRC and other enforcement additional resource for increased compliance activity. We assume this is just an oversight and based on Labour's plan to [Close the Tax Gap](#), we have costed this activity at **£0.9 billion** per annum. This means they intend to raise **£5.1 billion** net per year by the end of the next parliament.

They have also committed to scrap the UK Shared Prosperity Fund – a 2019 Conservative Manifesto pledge and Boris Johnson's flagship levelling-up policy – cutting **£1.5 billion** of annual investment intended for "tackling inequality and deprivation in each of our four nations" (2019 manifesto).

On 25 May, the Conservative campaign announced their plans for voluntary compulsory National Service for all eighteen-year-olds. The cost of 30,000 military commissions is £3.1 billion based on trainee payroll costs, training staff costs, equipment and expanding accommodation capacity. The placements for the remaining 745,000 18-year-olds will cost £1.8 billion, based on the unit cost for the National Citizen Service. The total cost of this policy will be **£4.9 billion** per year by the end of the parliament.

On 27 May, the Conservative campaign announced they would re-introduce a personal allowance for taxpayers over the State Pension age, which would partially reverse the income tax threshold freezes implemented by Rishi Sunak this parliament. This will cost **£2.4 billion** by the end of the next parliament.

Taken together, these latest pledges for a National Service and an age-related personal allowance will cost **£7.3 billion**, well in excess of the £6.6 billion of revenue the Conservatives have allocated to fund them.

Rishi Sunak has also promised to create 100,000 new apprenticeships. They say this **£1 billion** pledge will be funded from fewer students attending university, meaning fewer student loans are written-off, but have not capped university attendance and so they have no way to realise this saving. Yet again, the sums do not add up: it is just the latest example of the Tories' reckless approach to the country's finances.

So far in this campaign, the Tories have racked up **£71 billion** of unfunded pledges and all indications suggest they are only just getting started. This is a reckless act of desperation and it poses a danger to British families.

The Treasury has [published](#) analysis on the impact on interest rates of a reduction in spending funded by an increase in borrowing. The analysis has been referenced by Conservative Treasury Ministers publicly on several occasions, including Chief Secretary to the Treasury Laura Trott.

The analysis notes that a fiscal loosening funded by borrowing will “increase the level of demand in the economy, thereby increasing inflationary pressures, which may lead to an inflation-targeting central bank increasing interest rates.”

The Treasury calculated that every extra 1 percentage point of GDP of borrowing could increase interest rates by up to 125 basis points. **In the final year of the scorecard, a £71 billion rise in borrowing is equivalent to around 2% of GDP, meaning interest rates could rise by around 250 basis points.**

For someone with a mortgage on the average UK house worth £285,000 and a 20% deposit, a 2.5% rise in interest rates would increase monthly mortgage payments by £350.

Policy pledges

Table 1: Conservative Party General Election 2024 policy decisions (£)¹

	Head	2025-26	2026-27	2027-28	2028-29	2029-30
1. Scrapping national insurance	Tax	-43,110m	-43,650m	-44,620m	-45,560m	-46,470m
2. Pension's Triple lock plus	Tax	-750m	-1,160m	-1,580m	-1,990m	-2,400m
3. Abolish Inheritance Tax	Tax	-7,700m	-8,220m	-8,960m	-9,730m	-9,920m
4. Ending high marginal tax rates	Tax	-6,510m	-6,740m	-7,070m	-7,510m	-7,660m
5. Cut and abolish 'green' levies	Tax	-1,050m	-2,100m	-3,160m	-4,210m	-5,260m
6. Compulsory National Service	Spend	-980m	-1,960m	-2,940m	-3,920m	-4,860m
7. 100,000 new apprenticeships	Spend	-880m	-890m	-910m	-930m	-950m
8. Clamping down on tax avoidance	Tax	+730m	+2,430m	+3,780m	+3,930m	+5,150m
9. Scrapping UK Shared Prosperity Fund	Spend	0	0	0	+1,500m	+1,500m
Total policy decisions		-60,250m	-62,290m	-65,460m	-68,420m	-70,870m
Total spending policy decisions		-1,860m	-2,850m	-3,850m	-3,350m	-4,310m
Total tax policy decisions		-58,390m	-59,440m	-61,610m	-65,070m	-66,560m

¹ All costing rounded to nearest £10m

Conservative policy costing – Scrapping national insurance – Conservative Party

This policy costing was completed and signed off on 7 March 2024.

Description of policy						
<p>The Conservatives’ proposed changes to national insurance would:</p> <p>Cut employee NICs main rate from 8% to 0%, self-employed NICs main rate from 6% to 0%, employee NICs additional rate 2% to 0% and self-employed NICs additional rate from 2% to 0%.</p> <p>Jeremy Hunt said he wants to abolish NICs. In an email to Tory members he said “I’d like to end the unfairness where people in work are paying tax twice on their earnings.”</p> <p>Treasury Minister Bim Afolami confirmed this on LBC when he said the government’s intention was to eliminate NICs as it was a “double taxation” on work. When asked if “national insurance will vanish”, the Minister said “yes”.</p>						
Additional policy assumptions						
<ul style="list-style-type: none"> • Timeline: note Jeremy Hunt’s email to Conservative party members on 6 March 2024, which said: “we’ll be able to make progress towards that goal [scrapping national insurance] in the next Parliament”. • Costing profile: given this is a policy for the next parliament, cover costs beginning 2025-26. • Income tax: in line with comments from frontbenchers, we have assumed the government is not proposing further increases in income tax on workers, pensioners and investors, on top of the billions in tax rises already expected next Parliament due to ‘fiscal drag’. Proposals to further increase income tax would significantly reduce the cost of the proposal. • Tax base: tax base uses latest macroeconomic forecasts from the OBR. Five more years of Conservative economic mismanagement could see further downgrades to this forecast, reducing the tax base and lowering the overall cost of the measures. 						
Additional technical modelling assumptions or judgements required						
<ul style="list-style-type: none"> • This costing based on HMT scorecard for 2 percentage point cut to employee and self-employed main rate NICs. Costs are assumed to increase uniformly for a further eight percentage points. • The costing for cuts to the additional rate based on HMRC’s ‘direct cost of illustrative tax changes’ for the years 2025-26 and 2026-27. The costings in later years are assumed to increase in line with those in earlier years. • For years outside the current scorecard assume costs rise with 2% inflation. 						
Cost/Revenue to the Exchequer over five years						
(£mn)	2025-26	2026-27	2027-28	2028-29	2029-30	
Cost	43,110	43,650	44,620	45,560	46,470	

Conservative policy costing – Triple lock plus – Conservative Party

This policy costing was completed and signed off on 29 May 2024

Description of policy					
<p>The Conservatives have announced they would re-introduce the age-related personal allowance, scrapped by Chancellor George Osborne in 2012.</p> <p>This personal allowance would be increased in line with the highest of earnings, wages, or 12.5%, in line with the triple lock.</p> <p>The Conservatives estimate the average pensioner will save £100 next year, rising to £275 by 2029-30.</p>					
Additional policy assumptions					
<ul style="list-style-type: none"> Assume new age-related personal allowance is introduced in April 2025. Assume age-related personal allowance increases by the higher of average earnings, 2.5% of inflation every year. 					
Additional technical modelling assumptions or judgements required					
<ul style="list-style-type: none"> Policy is costed against current baseline, which assumes the personal allowance threshold will be frozen in cash terms for all income taxpayers for a further three years to 2027-28. Estimates from the IFS suggest it will benefit 7.5 million pensioners in the first year, with this number rising over time. This suggests a first-year cost of £750 million. We have assumed the Conservatives final year cost is correct and that the cost increases on a linear trajectory from 2025-26. 					
Cost/Revenue to the Exchequer over five years					
(£mn)	2025-26	2026-27	2027-28	2028-29	2029-30
Cost	750	1,160	1,580	1,990	2,400

Conservative policy costing – Abolish Inheritance Tax – Conservative Party

This policy costing was completed and signed off on 28 May 2024.

Description of policy					
<p>In an interview with <i>The Telegraph</i>, Jeremy Hunt said that inheritance tax was against “Tory values.” He said this alongside a pledge to “go further” on tax cuts after two cuts to National Insurance.</p>					
Additional policy assumptions					
<ul style="list-style-type: none"> Assume that Inheritance Tax is abolished entirely. 					
Additional technical modelling assumptions or judgements required					
<ul style="list-style-type: none"> Future revenues from Inheritance Tax taken from the OBR March 2024 Economic and Fiscal Outlook. 					
Cost/Revenue to the Exchequer over five years					
(£mn)	2025-26	2026-27	2027-28	2028-29	2029-30
Cost	7,770	8,220	8,960	9,730	9,920

Conservative policy costing – Ending high marginal tax rates – Conservative Party

This policy costing was completed and signed off on 29 May 2024.

Description of policy					
<p>In an interview with <i>The Telegraph</i>, Jeremy Hunt said that the Conservatives would address “taxes that disincentivise saving...”</p> <p>Hunt added that “... the £7, rate of tax that you pay stops people working and so we’ve got lots of distortions in the tax system.”</p>					
Additional policy assumptions					
<ul style="list-style-type: none"> Assume that the Conservatives will end high marginal tax rates for people earning between £50,000 and £125,000. Assume that this means that there is no High Income Child Benefit Charge above £60,000, and no tapering of the personal allowance between £100,000 and £125,140. Assume this policy is implemented in full in the next financial year. Assume that the cost of the policy rises in line with the GDP deflator forecast, as published by HM Treasury. 					
Additional technical modelling assumptions or judgements required					
<ul style="list-style-type: none"> The Resolution Foundation estimates the high-income child benefit charge saves £4.5bn a year. This costing was made in 2023/24. This costing uprates this figure in line with the GDP deflator. This estimate was made before the Chancellor raised the withdrawal thresholds, at a cost of £540m in 2024/25, rising to £660m in 2028/29. This has been subtracted from the Resolution Foundation costing of abolishing the charge. The withdrawal of the personal allowance from those earning more than £100,000 was costed at £1.5bn when it was originally announced. Using OBR published data on the cost of these measures updated to account for economic changes since then, scrapping the personal allowance withdrawal would cost £2.5bn in 2024/25, rising to 2.9bn in 2028/29. For years outside the medium-term forecasts, we have assumed cost rises with economy wide inflation of 2%. 					
Cost/Revenue to the Exchequer over five years					
(£mn)	2025-26	2026-27	2027-28	2028-29	2029-30
Cost	£6,510	£6,740	£7,070	£7,510	£7,660

Conservative policy costing – Cut and abolish green levies – Conservative Party

This policy costing was completed and signed off on 29 May 2024.

Description of policy					
<p>Energy Secretary Claire Coutinho has pledged that green levies on energy bill “will be lower in every year of the next parliament than they were last year.”</p> <p>The Energy Secretary has also pledged that no new green levies will be added to bills during the Parliament and has previously said she wanted to scrap green levies in their entirety.</p>					
Additional policy assumptions					
<ul style="list-style-type: none"> • We assume in line with the Energy Secretary’s previously stated policy that the government will remove green levies from household bills entirely. We will assume the levies are cut from their current level of £188 on a linear trajectory over the course of the Parliament. • We also assume the cost of meeting obligations previously funded by levies are borne entirely by taxpayers. 					
Additional technical modelling assumptions or judgements required					
<ul style="list-style-type: none"> • Assume the levies are cut in a linear trajectory over the five-year Parliament until they are entirely taxpayer funded by the end of the Parliament. • Assume the cost of the levies is equal to the average levy (£188) multiplied by the number of households covered by the price cap, approximately 28 million. 					
Cost/Revenue to the Exchequer over five years					
(£mn)	2025-26	2026-27	2027-28	2028-29	2029-30
Cost	1,050	2,100	3,160	4,210	5,260

Conservative policy costing – Compulsory National Service – Conservative Party

This policy costing was completed and signed off on 28 May 2024.

Description of policy					
The Conservatives announced compulsory national service for 18-year-olds in the UK, with the expectation that 30,000 18-year-olds will undertake a placement with the military. All other 18-year-olds will be expected to complete compulsory placements one weekend a month.					
Additional policy assumptions					
<ul style="list-style-type: none"> Assume the costs of the scheme for military service ramps up over time and scales to 30,000 recruits in military service by 2029-30. Assume the remaining 745,000 18-year-olds complete placements with other organisations, roughly comparable to the government’s previous National Citizen Service. 					
Additional technical modelling assumptions or judgements required					
<ul style="list-style-type: none"> According to the Ministry of Defence (MoD), the basic pay of a soldier in training is £18,687 rising to £23,496 after completing basic training. Based on previously published MoD estimates of non-wage payroll costs, the total cost of employing a private is around £35,358. The cost of employing 30,000 privates would be £1.06 billion. According to former Defence Secretary Ben Wallace’s favourite defence expert, training 30,000 recruits would require over 5,750 high level trained personnel. This would include 750 officers and 5,000 other trained staff. Based on salary costs and estimates above of non-salary costs, recruiting 5,750 trained personnel could cost £400 million a year. Based on previous estimates provided to Parliament by the MoD, the cost of equipment and administration per trainee is approximately £4,100. The cost for all trainees would therefore be £120 million. Based on estimates provided to Parliament by the MoD, the costs of running a training facility for 1,300 recruits and 500 staff is approximately £85 million. The running costs of the estate for 30,000 recruits and staff would be approximately £680 million a year. The government has previously earmarked £1.2 billion to deliver 8,500 bed spaces. Delivering a further 30,000 would cost £4.2 billion over the Parliament. There were approximately 775,000 18-year-olds according to latest ONS projections. 745,000 will therefore complete placements with other organisations. The unit cost of one participant in the National Citizen Service was £2,360 in current prices. Enrolling 745,000 people in similar schemes will cost approximately £1.76 billion. 					
Cost/Revenue to the Exchequer over five years					
(£mn)	2025-26	2026-27	2027-28	2028-29	2029-30
Cost	980	1,960	2,940	3,920	4,860

Conservative policy costing – 100,000 apprenticeships – Conservative Party

This policy costing was completed and signed off on 28 May 2024.

Description of policy					
<p>The Conservatives announced they would deliver 100,000 more high skilled apprenticeships a year by the end of the next parliament.</p> <p>The Conservatives claimed they will fund it by scrapping poor performing university courses, though they have not set out plans to cap student numbers or set out any reasoning for assuming it will reduce student numbers.</p>					
Additional policy assumptions					
<ul style="list-style-type: none"> The Conservatives claimed they will fund it by scrapping poor performing university courses, though they have not set out plans to cap student numbers or set out any reasoning for assuming it will reduce student numbers. 					
Additional technical modelling assumptions or judgements required					
<ul style="list-style-type: none"> The government body the Institute for Apprenticeships and Technical Education estimates the mean cost per apprenticeship is £8,655. Based on these figures, delivering 100,000 new apprentices would cost £865.5m.[1] We assume the cost of delivering an apprenticeship increases in line with whole economy inflation from the March 2024 OBR Economic and Fiscal Outlook. For years outside the medium-term forecast we assume inflation of 2%. 					
Cost/Revenue to the Exchequer over five years					
(£mn)	2025-26	2026-27	2027-28	2028-29	2029-30
Cost	880	890	910	930	950

Conservative policy costing – Tax Avoidance Plan – Conservative Party

This policy costing was completed and signed off on 28 May 2024.

Description of policy					
On May 25 2024 the Conservatives announced that they would hire additional HMRC staff and invest in labour-saving technology such as artificial intelligence to reach £6bn in additional annual tax revenue by the end of the next parliament					
Additional policy assumptions					
<ul style="list-style-type: none"> Assume that enough resources is invested in HMRC for both compliance staffing and technology in order to reach £6bn in additional tax revenue by the end of the next parliament. Assume the profile of spending and of revenue matches the profiles provided in Labour’s authoritative and comprehensive plan to tackle tax non-compliance, which was based on a rigorous assessment of the rollout of previous tax compliance initiatives. Assume the split in spending between compliance and technology is the same as in Labour’s tax compliance plan. Assume this policy is implemented from the 2025-26 financial year. 					
Additional technical modelling assumptions or judgements required					
<ul style="list-style-type: none"> The return on tax compliance staffing spend is £9 for every £1 of investment, in line with the internal figures that the Chief Executive of HMRC has stated previously. The return on tax compliance staffing spend is in line with the average of HMRC investment return profiles this parliament scored by the OBR. The return on technology investment is in line with National Audit Office research that concluded technology investment has a return of £2 for every £1 invested. The costing includes technology investment of £300m per year over five years of the forecast period, but the returns are limited to the last three years of the forecast period, to account for the rollout of new technology that is required before it starts to generate a return. 					
Cost/Revenue to the Exchequer over five years					
(£mn)	2025-26	2026-27	2027-28	2028-29	2029-30
Revenue	730	2,430	3,780	3,930	5,150
Comparison with current system (if applicable):					
Conservative’s own press release highlights that in recent years tax compliance yield, the amount that HMRC gets back from its tax compliance activities, has been lower, with a £9.2bn gap. This means under their administration tax dodging has grown by billions of pounds, suggesting efforts to tackle tax avoidance could be more successful than in recent years.					

Conservative policy costing – Scrapping UK Shared Prosperity Fund – Conservative Party

This policy costing was completed and signed off on 28 May 2024.

Description of policy					
The Conservatives have said they will extend the UK Shared Prosperity Fund for three years. From 2028/29 onwards, the Fund will be diverted to the Conservatives' National Service pledge.					
Additional policy assumptions					
<ul style="list-style-type: none"> • The UK Shared Prosperity Fund is assumed to be extended by three years, in line with statements by the Conservative Party in a press release on the 24 March 2024. • It is then assumed to be cancelled, in line with Conservative Party statements. • The UK Shared Prosperity Fund is assumed to be valued at £1.5bn per year, in line with Conservative Party statements to the press. 					
Additional technical modelling assumptions or judgements required					
<ul style="list-style-type: none"> • The costing assumes that in the absence of cancellation the amount spent per year on the UK Shared Prosperity Fund would have continued to be spent on a successor program or similar structural funding. 					
Cost/Revenue to the Exchequer over five years					
(£mn)	2025-26	2026-27	2027-28	2028-29	2029-30
Revenue	£0	£0	£0	£1,500	£1,500

