

# **Conservative Liberal Democrat coalition negotiations**

## **Agreements reached**

**11 May 2010**

This document sets out agreements reached between the Conservatives and Liberal Democrats on a range of issues. These are the issues that needed to be resolved between us in order for us to work together as a strong and stable government. It will be followed in due course by a final Coalition Agreement, covering the full range of policy and including foreign, defence and domestic policy issues not covered in this document.

### **1. Deficit Reduction**

The parties agree that deficit reduction and continuing to ensure economic recovery is the most urgent issue facing Britain. We have therefore agreed that there will need to be:

- a significantly accelerated reduction in the structural deficit over the course of a Parliament, with the main burden of deficit reduction borne by reduced spending rather than increased taxes;
- arrangements that will protect those on low incomes from the effect of public sector pay constraint and other spending constraints; and
- protection of jobs by stopping Labour's proposed jobs tax.

The parties agree that a plan for deficit reduction should be set out in an emergency budget within 50 days of the signing of any agreement; the parties note that the credibility of a plan on deficit reduction depends on its long-term deliverability, not just the depth of immediate cuts. New forecasts of growth and borrowing should be made by an independent Office for Budget Responsibility for this emergency budget.

The parties agree that modest cuts of £6 billion to non-front line services can be made within the financial year 2010-11, subject to advice from the Treasury and the Bank of England on their feasibility and advisability. Some proportion of these savings can be used to support jobs, for example through the cancelling of some backdated demands for business rates. Other policies upon which we are agreed will further support job creation and green investment, such as work programmes for the unemployed and a green deal for energy efficiency investment.

The parties agree that reductions can be made to the Child Trust Fund and tax credits for higher earners.

### **2. Spending Review – NHS, Schools and a Fairer Society**

The parties agree that a full Spending Review should be held, reporting this Autumn, following a fully consultative process involving all tiers of government and the private sector.

The parties agree that funding for the NHS should increase in real terms in each year of the Parliament, while recognising the impact this decision would have on other departments. The target of spending 0.7% of GNI on overseas aid will also remain in place.

We will fund a significant premium for disadvantaged pupils from outside the schools budget by reductions in spending elsewhere.

The parties commit to holding a full Strategic Security and Defence Review alongside the Spending Review with strong involvement of the Treasury.

The Government will be committed to the maintenance of Britain's nuclear deterrent, and have agreed that the renewal of Trident should be scrutinised to ensure value for money. Liberal Democrats will continue to make the case for alternatives. We will immediately play a strong role in the Nuclear Non-Proliferation Treaty Review Conference, and press for continued progress on multilateral disarmament.

The parties commit to establishing an independent commission to review the long term affordability of public sector pensions, while protecting accrued rights.

We will restore the earnings link for the basic state pension from April 2011 with a "triple guarantee" that pensions are raised by the higher of earnings, prices or 2.5%, as proposed by the Liberal Democrats.

### **3. Tax Measures**

The parties agree that the personal allowance for income tax should be increased in order to help lower and middle income earners. We agree to announce in the first Budget a substantial increase in the personal allowance from April 2011, with the benefits focused on those with lower and middle incomes. This will be funded with the money that would have been used to pay for the increase in Employee National Insurance thresholds proposed by the Conservatives, as well as revenues from increases in Capital Gains Tax rates for non-business assets as described below. The increase in Employer National Insurance thresholds proposed by the Conservatives will go ahead in order to stop Labour's jobs tax. We also agree to a longer term policy objective of further increasing the personal allowance to £10,000, making further real terms steps each year towards this objective.

We agree that this should take priority over other tax cuts, including cuts to Inheritance Tax. We also agree that provision will be made for Liberal Democrat MPs to abstain on budget resolutions to introduce transferable tax allowances for married couples without prejudice to this coalition agreement.

The parties agree that a switch should be made to a per-plane, rather than per-passenger duty; a proportion of any increased revenues over time will be used to help fund increases in the personal allowance.

We further agree to seek a detailed agreement on taxing non-business capital gains at rates similar or close to those applied to income, with generous exemptions for entrepreneurial business activities.

The parties agree that tackling tax avoidance is essential for the new government, and that all efforts will be made to do so, including detailed development of Liberal Democrat proposals.

### **4. Banking Reform**

The parties agree that reform to the banking system is essential to avoid a repeat of Labour's financial crisis, to promote a competitive economy, to sustain the recovery and to protect and sustain jobs.

We agree that a banking levy will be introduced. We will seek a detailed agreement on implementation.

We agree to bring forward detailed proposals for robust action to tackle unacceptable bonuses in the financial services sector; in developing these proposals, we will ensure they are effective in reducing risk.

We agree to bring forward detailed proposals to foster diversity, promote mutuals and create a more competitive banking industry.

We agree that ensuring the flow of credit to viable SMEs is essential for supporting growth and should be a core priority for a new government, and we will work together to develop effective proposals to do so. This will include consideration of both a major loan guarantee scheme and the use of net lending targets for the nationalised banks.

The parties wish to reduce systemic risk in the banking system and will establish an independent commission to investigate the complex issue of separating retail and investment banking in a sustainable way; while recognising that this would take time to get right, the commission will be given an initial time frame of one year to report.

The parties agree that the regulatory system needs reform to avoid a repeat of Labour's financial crisis. We agree to bring forward proposals to give the Bank of England control of macro-prudential regulation and oversight of micro-prudential regulation.

The parties also agree to rule out joining the European Single Currency during the duration of this agreement.

## **5. Immigration**

We have agreed that there should be an annual limit on the number of non-EU economic migrants admitted into the UK to live and work. We will consider jointly the mechanism for implementing the limit. We will end the detention of children for immigration purposes.

## **6. Political Reform**

The parties agree to the establishment of five year fixed-term parliaments. A Conservative-Liberal Democrat coalition government will put a binding motion before the House of Commons in the first days following this agreement stating that the next general election will be held on the first Thursday of May 2015. Following this motion, legislation will be brought forward to make provision for fixed term parliaments of five years. This legislation will also provide for dissolution if 55% or more of the House votes in favour.

The parties will bring forward a Referendum Bill on electoral reform, which includes provision for the introduction of the Alternative Vote in the event of a positive result in the referendum, as well as for the creation of fewer and more equal sized constituencies. Both parties will whip their Parliamentary Parties in both Houses to support a simple majority referendum on the Alternative Vote, without prejudice to the positions parties will take during such a referendum.

The parties will bring forward early legislation to introduce a power of recall, allowing voters to force a by-election where an MP was found to have engaged in serious wrongdoing and having had a petition calling for a by-election signed by 10% of his or her constituents.

We agree to establish a committee to bring forward proposals for a wholly or mainly elected upper chamber on the basis of proportional representation. The committee will come forward with a draft motions by December 2010. It is likely that this bill will advocate single long terms of office. It is

also likely there will be a grandfathering system for current Peers. In the interim, Lords appointments will be made with the objective of creating a second chamber reflective of the share of the vote secured by the political parties in the last general election.

The parties will bring forward the proposals of the Wright Committee for reform to the House of Commons in full – starting with the proposed committee for management of programmed business and including government business within its scope by the third year of the Parliament.

The parties agree to reduce electoral fraud by speeding up the implementation of individual voter registration.

We have agreed to establish a commission to consider the ‘West Lothian question’.

The parties agree to the implementation of the Calman Commission proposals and the offer of a referendum on further Welsh devolution.

The parties will tackle lobbying through introducing a statutory register of lobbyists. We also agree to pursue a detailed agreement on limiting donations and reforming party funding in order to remove big money from politics.

The parties will promote the radical devolution of power and greater financial autonomy to local government and community groups. This will include a full review of local government finance.

## **7. Pensions and Welfare**

The parties agree to phase out the default retirement age and hold a review to set the date at which the state pension age starts to rise to 66, although it will not be sooner than 2016 for men and 2020 for women. We agree to end the rules requiring compulsory annuitisation at 75.

We agree to implement the Parliamentary and Health Ombudsman’s recommendation to make fair and transparent payments to Equitable Life policy holders, through an independent payment scheme, for their relative loss as a consequence of regulatory failure.

The parties agree to end all existing welfare to work programmes and to create a single welfare to work programme to help all unemployed people get back into work.

We agree that Jobseeker’s Allowance claimants facing the most significant barriers to work should be referred to the aforementioned newly created welfare to work programme immediately, not after 12 months as is currently the case. We agree that Jobseeker’s Allowance claimants aged under 25 should be referred to the programme after a maximum of six months.

The parties agree to realign contracts with welfare to work service providers to reflect more closely the results they achieve in getting people back into work.

We agree that the funding mechanism used by government to finance welfare to work programmes should be reformed to reflect the fact that initial investment delivers later savings in lower benefit expenditure.

We agree that receipt of benefits for those able to work should be conditional on the willingness to work.

## **8. Education**

### **Schools**

We agree to promote the reform of schools in order to ensure:

- that new providers can enter the state school system in response to parental demand;
- that all schools have greater freedom over curriculum; and,
- that all schools are held properly accountable.

### **Higher education**

We await Lord Browne's final report into higher education funding, and will judge its proposals against the need to:

- increase social mobility;
- take into account the impact on student debt;
- ensure a properly funded university sector;
- improve the quality of teaching;
- advance scholarship; and,
- attract a higher proportion of students from disadvantaged backgrounds.

If the response of the Government to Lord Browne's report is one that Liberal Democrats cannot accept, then arrangements will be made to enable Liberal Democrat MPs to abstain in any vote.

## **9. Relations with the EU**

We agree that the British Government will be a positive participant in the European Union, playing a strong and positive role with our partners, with the goal of ensuring that all the nations of Europe are equipped to face the challenges of the 21<sup>st</sup> century: global competitiveness, global warming and global poverty.

We agree that there should be no further transfer of sovereignty or powers over the course of the next Parliament. We will examine the balance of the EU's existing competences and will, in particular, work to limit the application of the Working Time Directive in the United Kingdom.

We agree that we will amend the 1972 European Communities Act so that any proposed future Treaty that transferred areas of power, or competences, would be subject to a referendum on that Treaty – a 'referendum lock'. We will amend the 1972 European Communities Act so that the use of any *passerelle* would require primary legislation.

We will examine the case for a United Kingdom Sovereignty Bill to make it clear that ultimate authority remains with Parliament.

We agree that Britain will not join or prepare to join the Euro in this Parliament.

We agree that we will strongly defend the UK's national interests in the forthcoming EU budget negotiations and that the EU budget should only focus on those areas where the EU can add value.

We agree that we will press for the European Parliament only to have one seat, in Brussels.

We agree that we will approach forthcoming legislation in the area of criminal justice on a case by case basis, with a view to maximising our country's security, protecting Britain's civil liberties and

preserving the integrity of our criminal justice system. Britain will not participate in the establishment of any European Public Prosecutor.

## **10. Civil liberties**

The parties agree to implement a full programme of measures to reverse the substantial erosion of civil liberties under the Labour Government and roll back state intrusion.

This will include:

- A Freedom or Great Repeal Bill.
- The scrapping of ID card scheme, the National Identity register, the next generation of biometric passports and the Contact Point Database.
- Outlawing the finger-printing of children at school without parental permission.
- The extension of the scope of the Freedom of Information Act to provide greater transparency.
- Adopting the protections of the Scottish model for the DNA database.
- The protection of historic freedoms through the defence of trial by jury.
- The restoration of rights to non-violent protest.
- The review of libel laws to protect freedom of speech.
- Safeguards against the misuse of anti-terrorism legislation.
- Further regulation of CCTV.
- Ending of storage of internet and email records without good reason.
- A new mechanism to prevent the proliferation of unnecessary new criminal offences.

## **11. Environment**

The parties agree to implement a full programme of measures to fulfil our joint ambitions for a low carbon and eco-friendly economy, including:

- The establishment of a smart grid and the roll-out of smart meters.
- The full establishment of feed-in tariff systems in electricity – as well as the maintenance of banded ROCs.
- Measures to promote a huge increase in energy from waste through anaerobic digestion.
- The creation of a green investment bank.
- The provision of home energy improvement paid for by the savings from lower energy bills.
- Retention of energy performance certificates while scrapping HIPs.
- Measures to encourage marine energy.
- The establishment of an emissions performance standard that will prevent coal-fired power stations being built unless they are equipped with sufficient CCS to meet the emissions performance standard.
- The establishment of a high-speed rail network.

- The cancellation of the third runway at Heathrow.
- The refusal of additional runways at Gatwick and Stansted.
- The replacement of the Air Passenger Duty with a per flight duty.
- The provision of a floor price for carbon, as well as efforts to persuade the EU to move towards full auctioning of ETS permits.
- Measures to make the import or possession of illegal timber a criminal offence.
- Measures to promote green spaces and wildlife corridors in order to halt the loss of habitats and restore biodiversity.
- Mandating a national recharging network for electric and plug-in hybrid vehicles.
- Continuation of the present Government's proposals for public sector investment in CCS technology for four coal-fired power stations; and a specific commitment to reduce central government carbon emissions by 10 per cent within 12 months.
- We are agreed that we would seek to increase the target for energy from renewable sources, subject to the advice of the Climate Change Committee.

Liberal Democrats have long opposed any new nuclear construction. Conservatives, by contrast, are committed to allowing the replacement of existing nuclear power stations provided they are subject to the normal planning process for major projects (under a new national planning statement) and provided also that they receive no public subsidy.

We have agreed a process that will allow Liberal Democrats to maintain their opposition to nuclear power while permitting the government to bring forward the national planning statement for ratification by Parliament so that new nuclear construction becomes possible.

This process will involve:

- the government completing the drafting of a national planning statement and putting it before Parliament;
- specific agreement that a Liberal Democrat spokesman will speak against the planning statement, but that Liberal Democrat MPs will abstain; and
- clarity that this will not be regarded as an issue of confidence.