How to save £50 billion

Reducing spending for sustainable public finances

The TaxPayers' Alliance

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Contents

Executive Summary

This paper sets out the depths of the UK's fiscal crisis, why public spending needs to be reduced, the consequences that are risked if it is not, and a total of £50 billion of suggestions for annual expenditure savings. It is the work of a unique collaboration between the Institute of Directors and the TaxPayers' Alliance – the UK's leading organisations representing company directors and taxpayers, respectively, across the country.

Why public spending needs to fall

It is now incontrovertible that a greater degree of fiscal tightening than that currently envisaged by the Government will be required:

- The UK is facing a fiscal crisis of historic proportions, with the numbers at staggering levels. Net borrowing is forecast to reach up to 14 per cent of GDP next year, while the structural deficit is predicted to reach 10 per cent of national income.
- The Treasury's public finance forecasts rely on growth returning rapidly to 3.25 per cent from 2011-12 and remaining at that high level. But if these optimistic assumptions do not materialise, following the Government's current plans for spending and taxation will make little impact on the deficit.
- Failure to bring borrowing under control risks being disastrous for the UK economy and for the stability of public spending. The UK's credit outlook has already been downgraded by Standard & Poor's to "negative", and unless fiscal tightening efforts are sufficiently credible, interest rates on government debt could increase to unsustainable levels and Sterling could undergo a further dramatic fall, risking a trip to the IMF mirroring the one in 1976.

While in theory borrowing could be reduced by tax rises as well as spending cuts, increasing taxes would be highly damaging to economic recovery and deficit reduction and would ignore the unsustainable rise in public spending that occurred before the recession began:

- A wealth of academic evidence, from the OECD, European Central Bank and others, reveals that higher taxes slow economic growth, while lower government consumption spending increases growth. Both the IMF and the EU Commission have concluded that fiscal consolidations that are largely comprised of lower spending, with credible fiscal rules, are more durable than those largely comprised of higher taxes. Raising taxes risks choking off recovery, which in turn threatens efforts to reduce the deficit.
- In additional to the financial and housing booms, the UK experienced a public spending boom. Between 2000 and 2007, in other words before the economic crisis began, public spending increased more quickly as a share of national income in the UK than in any other OECD country. Excessive public spending is the real reason why the structural deficit is so high.

Dealing with excessive budget shortfalls is a major challenge, but with the right political will, it can be achieved:

- There is no easy choice between reforms to public services and cuts to public expenditure, for the simple reason that reforms do not save money immediately. Reducing the deficit, however, cannot wait and so both have to be put in place as soon as possible: reforms so that, in several years time, public services will be able to deliver more with less; and also cuts to fill the immediate hole in the public finances.
- Governments have proved up to the task in previous years, and so there is no reason why they cannot today. In the 1990s, the Canadian government reduced its budget deficit from 9.1 per cent of GDP to zero in five years, and has proceeded to run surpluses in almost every year since. It achieved this almost exclusively through reductions in public expenditure – between 1992 and 1997, spending fell by 9 percentage points of GDP, while taxes hardly rose at all.

Where to save £50 billion

This report sets out practical suggestions for expenditure reduction: £42.5 billion of annual savings from 2010-11 onwards, and £7.5 billion of possibilities that may have to be considered in the emergency scenario of a further fiscal deterioration, bringing the total to £50 billion from 2011-12 onwards.

We don't claim that all our suggestions are above criticism. But it is vital that there is a serious debate over tangible proposals to cut the deficit, and critics to answer the following question: what would you cut instead? For it is clear that a sizeable chunk of government expenditure is going to have to go.

Our overall approach has been to suggest ways to make the public sector more effective by reducing or removing unproductive items of government expenditure. Items of spending that don't work, or are not essential, should be the first to go. Any business faced with losses of a much smaller order of magnitude would be compelled to streamline and improve operations; indeed, that is exactly what many companies have been doing over the past year to combat the effects of the recession. There is no reason why the performance of the £670 billion of annual public expenditure should not be improved in the same way.

We cannot see an alternative to making tough choices on specific items of expenditure, and have been guided in our approach by the views of almost 1,000 IoD members, who have suggested items of expenditure that are not providing value for money.[1] We have not relied on efficiency savings, which are rarely delivered in full. Add in efficiency savings and the total would be more than £50 billion. With greater government transparency, for example access to the COINS database used by the Treasury and other departments to monitor and control spending, further savings could undoubtedly be identified.

Chapter 2 of this report sets out 32 specific suggestions for savings, with a full costing and rationale for each one. These suggestions total £42.5 billion of annual savings from 2010-11 onwards. There are a further 2 items, totalling £7.5

[1] In June 2009 the IoD carried out a Policy Voice survey of 1,002 IoD members, and received 890 suggestions for items of spending to reduce

billion of annual savings, that may need to be considered in an emergency. Because these latter items are emergency possibilities, they are costed for 2011-12 onwards. The potential savings outlined in this report therefore total £50 billion from 2011-12 onwards.

The full table of suggested savings and emergency possibilities can be seen below (reproduced in the Appendix):

Item	Item description	Annual saving, £m	
	Tackling areas of spending that are not performing *Reducing items of spending that don't work*		**£5,477**
1	Abolish the Bus Service Operators' Grant	£451	
2	Abolish Sure Start	£1,456	
3	Abolish Building Schools for the Future	£2,300	
4	Abolish the Education Maintenance Allowance	£530	
5	Halt further orders and upgrades for the Eurofighter	£740	
	Curbing over-extended government *Stopping government doing things it shouldn't be doing*		**£1,595**
6	Halve the government advertising and publicity budget	£270	
7	Abolish Contact Point, the children's database	£44	
8	Abolish the NHS National Programme for IT (NPfIT)	£1,181	
9	Abolish identity cards	£55	
10	Abandon plans to extend the compulsory school leaving age to 18	£45	
	Cutting out the middle-man *Reducing agencies and people that get in the way of the frontline*		**£6,928**
11	Halve public sector spending on consultants	£1,100	
12	Reduce non-frontline staff in health and schools by 10 per cent	£921	
13	Reduce the size of the civil service by 10 per cent	£1,233	
14	Scale down 'Local Education Authorities' (LEAs) in England	£599	
15	Slim down the Department for Communities and Local Government (DCLG)	£1,317	
16	Rationalise the framework of regional government and business support	£940	
17	Begin a thorough rationalisation of taxpayer funded quangos and public bodies, including total abolitions, funding reallocations and budget cuts	£818	
	Tackling specific budgets *Taking a more blanket approach on specific budgets*		**£6,491**
18	Cut 25 per cent from the budget of the Department for Culture, Media and Sport (DCMS)	£725	
19	One year freeze of the resource and capital budgets of the Department for International Development	£862	
20	One year freeze of the Home Office resource and capital budgets	£360	
21	One year freeze of the grants from the Department for Communities and Local Government to local and regional governments	£687	

Item	Item description	Annual saving, £m	
22	Cut 10 per cent from the budgets of non-ministerial departments, except for UK Trade and Investment and the UK Statistics Authority	£1,700	
23	One year freeze of the grants given to Scotland, Northern Ireland and Wales (current spending only)	£1,400	
24	Simplify and rationalise the skills system and the plethora of skills programmes	£757	
	Tackling above-inflation indexing *Increasing payments in line with inflation, but no more*		**£1,441**
25	One year freeze of the Basic State Pension and the Minimum Income Guarantee	£1,441	
	Restraining public sector pay and perks *Recognising that the public sector has had a good deal recently*		**£8,711**
26	One year pay freeze across the public sector, excluding members of the armed forces serving in conflict zones	£6,203	
27	Increase employee contributions to all unfunded public sector pension schemes by a third	£2,508	
	Cutting middle-class welfare *Stopping paying benefits to people who don't need them*		**£11,999**
28	Abolish Child Benefit and the Child Trust Fund, and increase the Child Element of the Child Tax Credit to address child poverty concerns	£8,447	
29	Taper away the Family Element of the Child Tax Credit at 39 per cent immediately upon exhaustion of the Child Element of the Child Tax Credit	£1,350	
30	Target spending on free bus passes for the elderly and disabled on those who genuinely need it	£438	
31	Abolish free TV licences	£564	
32	Abolish interest subsidy to student loans	£1,200	
	Total annual saving from 2010-11 onwards		**£42,642**
	Further emergency possibilities after 2010 *If fiscal conditions were so bad as to require emergency savings*		**£7,421**
33	A further one year pay freeze across the public sector, excluding members of the armed forces serving in conflict zones	£6,203	
34	Reduce gross annual pay by 5 per cent for the richest 10 per cent in the public sector	£1,218	
	Total potential annual saving from 2011-12 onwards		**£50,063**

1 Why public spending needs to be reduced

1.1 The UK's fiscal mess and the consequences of inaction

It is common knowledge that the UK is facing a fiscal crisis of historic proportions. The actual numbers involved are quite staggering:

- The Treasury forecasts that net borrowing will peak at £175 billion, or 12.4 per cent of GDP, in 2009-10.[2]
- The European Commission predicts that borrowing will reach 13 per cent of GDP in 2009-10.[3]
- The IMF forecasts that general government borrowing will reach 13.3 per cent of GDP in 2010.[4]
- The OECD expects the deficit to reach around 14 per cent of GDP in 2010.[5]

There are reasonable disagreements as to whether allowing borrowing to increase in the short term, over and above any automatic stabilisers, will hasten economic recovery, but what is not in doubt is the need for rapid consolidation of the public finances once growth returns. In the UK's context, this is perhaps an even bigger worry than the headline borrowing peak of 12-14 per cent of GDP:

- The Treasury expects the structural budget deficit (which excludes the fiscal stimulus as well as the higher welfare spending and lower tax revenues that are due to the recession) to peak at 9.8 per cent of GDP in 2009-10.[6]
- The IMF predicts that the structural deficit will peak at 9.9 per cent of GDP in 2009.[7]
- The European Commission forecasts that it will be 11.6 per cent of GDP in 2009-10.[8]

The unprecedented structural deficit of 10-12 per cent of GDP means that returning the public finances to balance will be all the more difficult. The Treasury forecasts that net borrowing in 2013-14 – four years from now – will still exceed 5 per cent of GDP, but this is based on an assumption that growth will return to 3.25 per cent in 2011-12 and will remain at that high level.[9] Even after a rapid and sustained recovery, and together with the Government's existing plans to tighten fiscal policy from 2011-12, borrowing will still be higher than in any year since 1994.

If, however, growth does not recover to the same extent, the hole in the public finances is larger still:

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[2] HM Treasury, *Budget 2009*, April 2009, Tables C4 and C5
[3] European Commission, *Public Finances in EMU 2009*, European Economy 5, June 2009, Table V.27.1 http://ec.europa.eu/economy_finance/publications/publication15390_en.pdf
[4] International Monetary Fund, *United Kingdom: 2009 Article IV Consultation – Staff Report*, July 2009, Table 1 http://www.imf.org/external/pubs/ft/scr/2009/cr09212.pdf
[5] OECD, *Economic Survey of the United Kingdom 2009*, 29 June 2009
[6] HM Treasury, *Budget 2009*, April 2009, Table C3
[7] International Monetary Fund, op. cit.
[8] European Commission, op. cit.
[9] HM Treasury, *Budget 2009*, April 2009, Tables C1 and C5

- The IoD forecasts that, if growth recovers to 2.5 per cent (rather than the Government's projection of 3.25 per cent) and the Government's fiscal plans are followed, net borrowing will exceed 8 per cent of GDP in 2013-14. If growth only recovers to 2 per cent, then following the Government's fiscal plans will mean that net borrowing will still exceed 10 per cent of GDP in 2013-14.
- Similarly, in a report for the TaxPayers' Alliance, the Centre for Economics and Business Research found that under a more modest recovery scenario than predicted by the Treasury, the budget deficit will remain over £160 billion in 2013-14 and £140 billion in 2017-18.[10]

Failure to bring borrowing quickly under control risks being disastrous for the UK economy and the stability of public spending:

- The Treasury projects an increase in debt servicing costs from £27.2 billion this year to £42.9 billion in 2010-11.[11] Net borrowing of over £700 billion is forecast for the next five years,[12] which, at a yield of 4 per cent, would add £28 billion a year to debt servicing costs.
- Treasury forecasts, however, are based on relatively low interest rates on government debt. They assume the Government can continue to borrow at the current average rate of 4.3 per cent.[13] But if a lack of credible promises to tighten fiscal policy causes the bond markets to lose confidence in the UK's fiscal sustainability, the cost of government borrowing will shoot up. The Institute for Fiscal Studies has calculated that just a one percentage point increase in the Government's average interest rate by 2015-16 would raise the debt servicing burden by around one percent of GDP, or about £15 billion per annum.[14] As recently as the 1990s, the average interest rate was 7 per cent, nearly 3 percentage points higher than now.
- There is a genuine risk of such a scenario occurring, even if for the time being investors seem prepared to wait upon the outcome of the next election for firm and decisive action. Standard & Poor's, the ratings agency, has already revised the UK's credit outlook from "stable" to "negative", which indicates a one-in-three chance that it will downgrade the UK's credit rating from AAA within the next two years, if fiscal tightening efforts are not sufficiently credible.[15] At the same time, the unwinding of the Bank of England's Quantitative Easing programme will put further downward pressure on gilt prices, increasing the interest costs on new borrowing.

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[10] Centre for Economics and Business Research, *Can tax increases solve the United Kingdom's public finance crisis?,* July 2009 http://www.taxpayersalliance.com/CEBR.pdf
[11] HM Treasury, *Budget 2009*, April 2009, Table C9
[12] HM Treasury, *Budget 2009*, April 2009, Table C4
[13] Institute for Fiscal Studies, *Budget 2009: tightening the squeeze?*, April 2009 http://www.ifs.org.uk/bns/bn83.pdf
[14] Ibid.
[15] Standard & Poor's press release, 21 May 2009 http://www.lse.co.uk/MacroEconomicNews.asp?ArticleCode=77z1wncnyhppcqb&ArticleHeadline=rpt-text-s&p_statement_on_revising_uk_rating_outlook_to_negative

- The other risk is to the value of Sterling, given that approximately one third of gilts are now held by overseas investors.[16] If those investors lose faith in the Government's longer-term commitment to fiscal discipline, they will head for the exit, just as they have so often in the past. Sterling would slide still further, engendering a further loss of confidence, and risking a return to the vicious cycle of weak Sterling/high inflation that bedevilled Britain throughout the 1960s and 1970s. And just like then, the authorities would be on the back foot, reacting to each unfolding crisis with an unending stream of emergency budgets and policy flip-flops. In the 1970s it ended with a cap-in-hand visit to the IMF.
- The IMF is the ultimate backstop if things go wrong. But, as in the 1970s in the UK and over many decades across the world, the IMF would require drastic government spending cuts as a condition of aid. Spending cuts are unavoidable. It would be better to implement them early rather than being forced into even larger reductions later on.

It is incontrovertible that a bigger fiscal tightening than that currently envisaged by the Government will be required.

1.2 Why cutting spending is preferable to raising taxes

The key element for debate is over the nature of the fiscal tightening. This section sets out why we believe it should be comprised of spending cuts rather than tax rises, although taxes have already increased this month.

There is a wealth of academic evidence on the effects of taxes and spending on economic growth and deficit reduction, which points to three conclusions:

1. Higher taxes reduce economic growth:
    - Surveying OECD countries over the 1980-2000 period, the OECD concluded that a 1 percentage point increase in the tax/GDP ratio reduces output per capita by 0.3 per cent, or 0.6-0.7 per cent if the effect on investment is taken into account.[17]
    - A study of EU15 and OECD countries from 1970 to 2004 by the European Central Bank found that a 1 percentage point increase in the tax/GDP ratio reduces output by 0.12 percentage points for the OECD countries and 0.13 percentage points for the EU countries.[18]

2. Lower government spending, especially government consumption spending, increases economic growth:
    - The 2008 European Central Bank study mentioned above also found that a 1 percentage point increase in the spending/GDP ratio reduces output

[16] Debt Management Office, *Quarterly Review*, March 2009 http://www.dmo.gov.uk/documentview.aspx?docname=publications/quarterly/jan-mar09.pdf&page=Quarterly_Review
[17] For further details, see Tax Reform Commission, *Tax Matters: Reforming the Tax System*, October 2006, Table 2.1
[18] Antonio Afonso and Davide Furceri, *Government Size, Composition, Volatility and Economic Growth*, European Central Bank, Working Paper 849, January 2008

by 0.12 percentage points for the OECD countries and 0.13 percentage points for the EU countries.[19]

- Writing in Fiscal Studies in 2007, Mo found that a 1 percentage point increase in the share of government consumption in GDP reduces the equilibrium GDP growth rate by 0.216 percentage points, while the same increase in government investment raises the growth rate by 0.167 percentage points.[20]

3. Fiscal consolidations that are largely comprised of lower spending are more durable than those largely comprised of higher taxes:

   - The IMF, in its latest Staff Report on the UK economy, stated that *"evidence from OECD countries shows that although changes in revenue and expenditure contribute to closing the fiscal gap, expenditure restraint brings about longer lasting and larger adjustment episodes, which are more successful in achieving a debt stabilizing fiscal position. Expenditure reduction demonstrates a firmer commitment to feasible and substantial consolidation, and may trigger lower interest rates and boost private demand."* [21]

   - The EU Commission has also confirmed this view, stating in a 2008 paper that *"as regards the composition of successful fiscal consolidation, the EU experience confirms that cuts in current primary expenditure are more likely to produce a lasting effect than higher revenues or large cuts in government investment."* The EU paper also points out that other factors such as fiscal governance and structural reforms are also key to the success of fiscal consolidation efforts.[22]

It is not surprising that this latter conclusion is drawn. Increasing taxes reduces GDP growth, which makes deficit reduction harder, while reducing government consumption increases economic growth, making deficit reduction easier. While the reality is somewhat more complicated, with successful economic recoveries and fiscal consolidations depending on many more factors than discussed in this section, the broad trends are clear. It is better to reduce borrowing by cutting spending than by increasing taxes.

Using a dynamic model of the UK economy first developed for the TaxPayers' Alliance in Spring 2007, the Centre for Economics and Business Research found that a broadly-based set of income and corporation tax rises would so damage the supply-side of the economy that the package would be revenue-negative after seven years. Increasing the basic rate of income tax to 25 per cent, the higher rate to 50 per cent and the corporation tax rate to 41 per cent would initially raise £15 billion, but by 2020-21 the package would lead to a 6.1 per cent reduction in GDP and a £33 billion increase in the deficit.[23]

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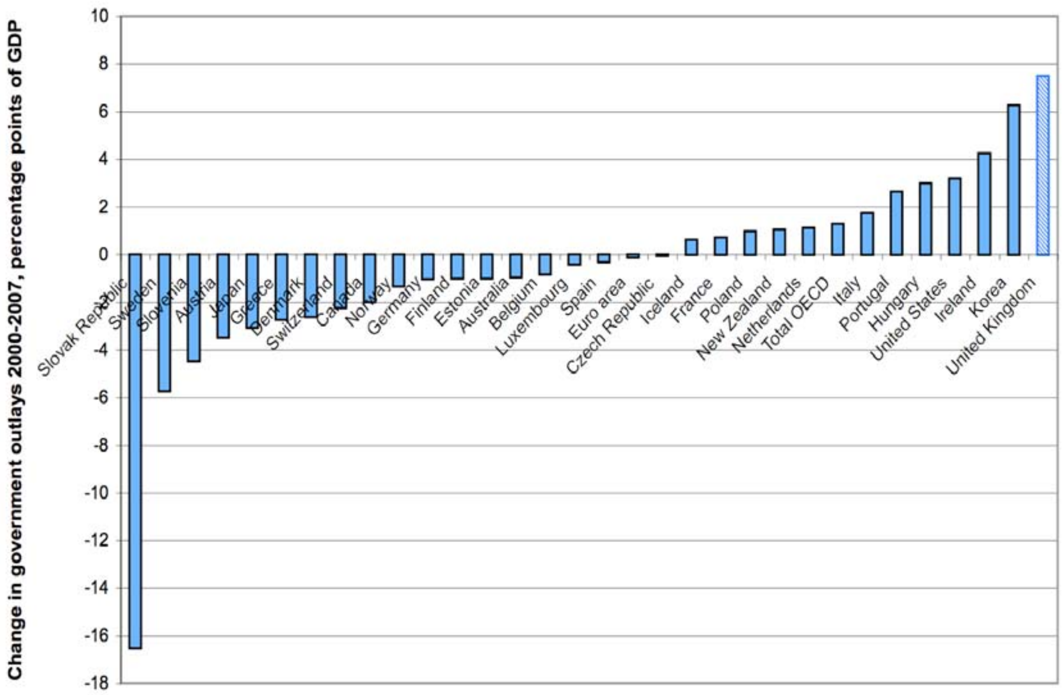
[19] Ibid.
[20] Mo, *Government Expenditure and Economic Growth: the supply and demand sides*, Fiscal Studies 28 (4), 2007
[21] International Monetary Fund, *United Kingdom: 2009 Article IV Consultation – Staff Report*, July 2009, p.40
[22] Martin Larch and Alessandro Turrini, *Received Wisdom and Beyond: Lessons from Fiscal Consolidation in the EU*, European Commission Economic Papers 320, April 2008
[23] Centre for Economics and Business Research, op. cit.

International leaders have also rejected the idea of responding to deficits with tax rises. Angela Merkel, the German Chancellor, has attacked a proposed VAT rise, saying: *"An increase in the reduced rate would be unfair and would damage growth. Germany needs a swift exit out of the crisis. People need relief, not additional burdens."* [24] President Barack Obama recently told NBC: *"The last thing we want to do is to raise taxes in the middle of a recession, because that would just suck up, take more demand, out of the economy and put businesses in a further hole."* [25]

What makes the argument for spending cuts even more compelling in the UK's case is the recent record of public spending. Between 2000 and 2007, in other words before the current economic crisis began, public spending increased by 7.5 percentage points of GDP, which as Chart 1.1 shows, was by far the fastest increase in the OECD. Comparing projections of public spending in 2010 with the actual numbers for 2000 puts the UK in an even worse light – next year, UK public spending is projected to be 17.5 percentage points of GDP higher than in 2000, an increase that only Ireland is expected to exceed.[26]

Chart 1.1: Public spending in the OECD, 2000-2007 [27]



Part of the reason the structural deficit is so high, therefore, is that the UK has experienced a public spending boom greater than in any other OECD country. This boom is not sustainable and needs to be unwound.

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[24] Financial Times, 29 June 2009 http://www.ft.com/cms/s/0/1e8e99a0-6443-11de-a818-00144feabdc0.html
[25] See http://www.stopjobkillingtaxes.com/ for a recording of the NBC interview
[26] OECD, *Economic Outlook No. 85*, June 2009, Annex table 25
[27] Ibid.

1.3 Why we need explicit fiscal rules

There is now very strong evidence from around the world that fiscal consolidation programmes have a considerably higher chance of success if they are formalised in an explicit set of fiscal rules.

For example, in its recent study the European Commission concluded:

"The probability to produce a lasting [fiscal] correction is increased when public finances are covered by numerical fiscal rules and/or effective budgetary procedures."

And it explained why:

"[Rules] provide incentives to design adjustment measures that stand a higher chance to be effective and lasting, not least in view of the possible costs associated with the risk of running foul of the rules." [28]

In other words, explicit fiscal rules not only provide ministers with clear operational targets against which to calibrate policy, but they also make it more difficult for them to wriggle out of the tough decisions that may be required.

This is why the IMF[29] and the OECD have *both* recently urged the UK to adopt explicit fiscal rules for the difficult years ahead, with the OECD stating:

"The reformulated rules should be forward looking, ensure medium-term spending discipline and account more explicitly for off balance sheet public liabilities." [30]

The IoD has previously called for a medium-term fiscal target of reducing public spending overall to 35 per cent of GDP by 2020, while protecting investment in transport and energy infrastructure.[31] Reducing public spending to this level would remove the principal cause of high borrowing and eliminate the UK's structural deficit. As shown in the previous section, international experience is that *spending restraint* is the fundamental driver of sustainable fiscal consolidation.

Beyond 2020-21, a new regime of formal fiscal rules should be introduced. Before the current downturn intervened, the IoD proposed that real public spending should increase by no more than 2 per cent a year on average.[32] A formal regime such as this will be essential.

Of course, it is crucial that our new reformulated rules are complete and transparent: we cannot afford a repeat of Gordon Brown's infinitely malleable so-called "rules". Adherence to the new rules will need to be monitored by an independent Fiscal Policy Committee to ensure they are fiddle-free.

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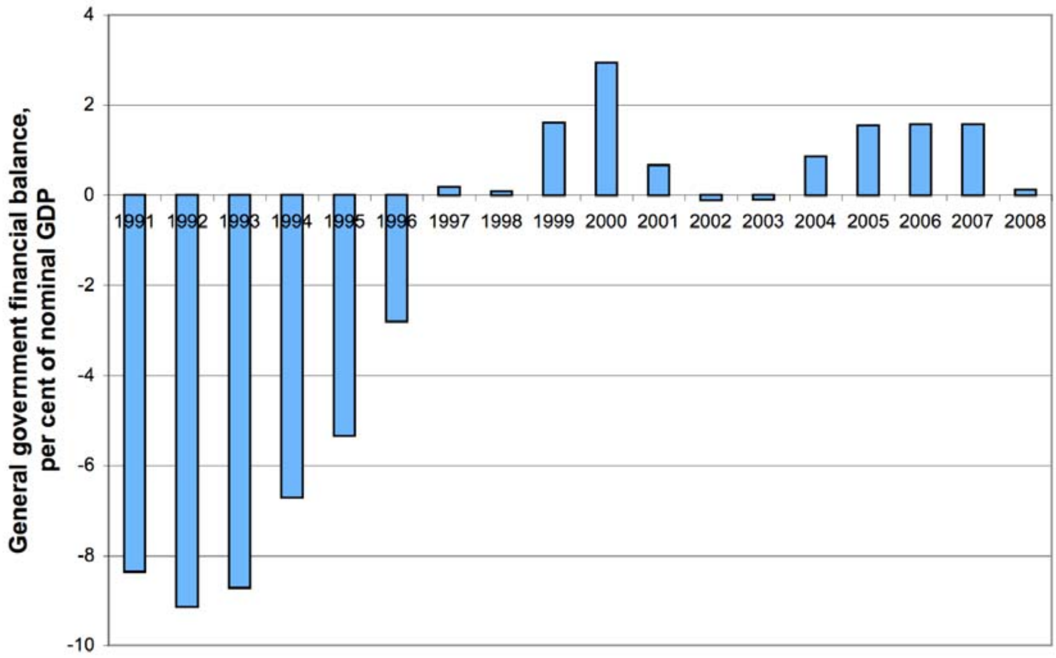
[28] Martin Larch and Alessandro Turrini, *Received Wisdom and Beyond: Lessons from Fiscal Consolidation in the EU*, European Commission Economic Papers 320, April 2008
[29] International Monetary Fund*,* op. cit.
[30] OECD, op. cit.
[31] Institute of Directors, *An Economic Recovery Plan for the UK,* April 2009
[32] Institute of Directors, *Budget Report 2008,* March 2008

1.4 The lessons from Canada's successful deficit reduction

The academic evidence may point to the best route to fiscal stability, but what of the actual experience of countries facing enormous deficits? One of the best recent examples of a rapid and durable fiscal consolidation is in Canada.

Canada's budget deficit in the early 1990s was threatening to get out of control. In 1992, it reached a high of 9.1 per cent of GDP. Just five years later, in 1997, the country was recording a budget surplus and it continued to run surpluses in almost every year up to the current global economic crisis, as Chart 1.2 shows.

Chart 1.2: Canada's falling budget deficit[33]

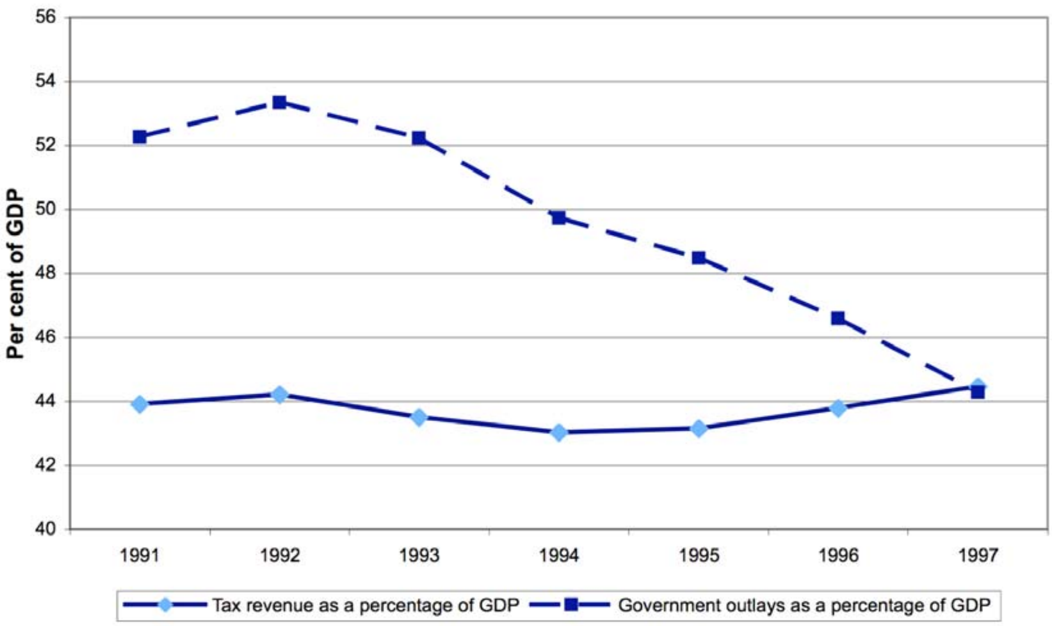


The data shows clearly that Canada reduced its deficit through a combination of a sharp reduction in its spending/GDP ratio together with a return to strong real GDP growth.

Chart 1.3 compares the role of increases in the tax/GDP ratio and reductions in the spending/GDP ratio in closing the budget deficit. It makes clear that the fiscal gap was closed through spending restraint. Between 1992 (the year of the largest deficit) and 1997, spending fell by 9 percentage points of GDP, while the tax/GDP ratio rose by just 0.3 percentage points.

[33] OECD, *Economic Outlook No. 85*, June 2009, Annex table 27

Chart 1.3: The comparative roles of tax increases and public spending reductions in eliminating Canada's deficit[34]



Real GDP growth was also a positive factor, enjoying a strong rebound from -2.1 per cent growth in 1991 to an average of 2.8 per cent growth from 1992 to 1997. By contrast, inflation played little role, with Canada's consumer price index falling from 5.6 per cent in 1991 and averaging just 1.5 per cent between 1992 and 1997.[35]

While strong real GDP growth certainly helped to reduce Canada's spending/GDP ratio, the Canadian government did take some difficult decisions on expenditure.

As the Institute for Government has highlighted recently, after a number of failed attempts to realise efficiency savings, the Canadians set up a process called "Program Review" that required departments to identify a long list of programmes and activities to cut or transfer out of central government. This was made an urgent necessity rather than an aspiration by the collapse of the Mexican currency, which brought attention to the weakness of the Canadian dollar and the sustainability of its debt. The result of Program Review was that federal departmental budgets were reduced by 20 per cent on average within four years.[36]

These cuts meant that, despite other areas of spending rising, between 1993 and 1997, total federal, provincial and local spending was roughly frozen in *cash terms*, which represents a sizeable real terms reduction. Between 1992 and 1997, total government spending at all levels increased by an average of just 0.7 per cent a year in *cash terms.*[37]

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[34] OECD, *Economic Outlook No. 85*, June 2009, Annex tables 25 and 26
[35] OECD.stat
[36] David Halpern and Jerrett Myers, *A model of brutality Britain can build on*, The Sunday Times, 3 May 2009
[37] Statistics Canada

It is worth noting that the UK Government's April 2009 Budget sets out plans approximately to freeze total government spending between 2011 and 2014, but in *real terms* rather than *cash terms.*[38] This is far less onerous an objective than the Canadian government set itself and shows how much more scope there is to be tighter on public expenditure in the UK.

1.5 Cuts versus reform and the challenge to our democratic system

There has been much debate in recent months about choices between reforming public services to get more for less, and cutting frontline services.

In reality, however, there is no choice between reforms and cuts, for the simple reason that reforms do not save money immediately. Reducing the deficit, however, cannot wait and so both have to be enacted as soon as possible: reforms so that, in several years time, public services will be able to deliver more with less; and also cuts to fill the immediate hole in the public finances.

There is simply no alternative. If cuts are enacted without reforms, the country will experience short-term pain with little prospect of anything better. If reforms are enacted without cuts, then Britain risks a deep fiscal crisis, with much higher taxes or a trip to the IMF as the consequence.

The difficulties that will be experienced by any government trying to reduce public expenditure will perhaps prove to be one of democracy's sternest tests. For it is a sad truth that we all want something for nothing – we would all be happy receiving a service we don't have to pay for, and we would urge tax rises or spending cuts to fall on someone else.

Perhaps the most prominent effect of this particular failure of the democratic system can be seen in California today. One of the most prosperous states in the US, the state of California is now close to bankruptcy, with its credit rating downgraded to BBB (just two ranks above junk bond status) by Fitch in July 2009.[39] In May 2009, Californian voters rejected a package of spending cuts and tax increases, designed to reduce the budget deficit.

This is not to say that other democracies will end up in California's position, or indeed that local voters were wrong to reject the proposals on offer, but democracy as a system will have to overcome the problem of "something for nothing".

Therein, however, lies an opportunity: if the financial crisis taught us anything, it is that you can't have something for nothing. Complicated financial products that promised just that ultimately turned out to be mere wishful thinking. It is likewise wishful thinking to believe that the fiscal crisis can be remedied without spending

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[38] Gemma Tetlow, *Budget 2009 Briefing – Public Spending*, Institute for Fiscal Studies, 23 April 2009 http://www.ifs.org.uk/budgets/budget2009/public_spending.pdf
[39] Bloomberg, 14 July 2009
http://www.bloomberg.com/apps/news?pid=20601087&sid=az4zN3Kv02vo

cuts, or that those cuts will be entirely pain-free. Indeed, this necessity has become increasingly accepted by the public.[40]

A recent editorial in the Financial Times put the argument succinctly:

"Whoever wins the election – and however strong their reforming zeal – the next government will be remembered as a cutter. No reforms can save the British state from its coming resculpting … Labour and the Tories must both explain which functions of government they regard as sacred and which, if forced, they would sacrifice."[41]

The need for spending cuts is incontrovertible. Chapter 2 sets out our suggestions for where savings could be made.

[40] For example, a Populus poll for The Times on 21 July 2009 found that four in five voters believe that significant cuts in public spending are inevitable after the next election, regardless of which party wins http://www.timesonline.co.uk/tol/news/politics/article6721212.ece
[41] Financial Times, *UK will not be spared the axe,* 19 August 2009 http://www.ft.com/cms/s/0/d577f390-8c21-11de-b14f-00144feabdc0.html

2 Where to save £50 billion: specific suggestions for cutting poorly performing and non-priority areas of spending

The aim of this chapter is to make a set of practical suggestions for expenditure reduction. We don't claim to have all the answers, or indeed that our suggested items are above criticism. Nor do we assume that our suggestions are at the limit of the savings that could be achieved. But it is vital that there is a serious debate over tangible proposals to cut the deficit.

Our overall approach has been to suggest ways to make the public sector more effective by reducing or removing unproductive items of government expenditure. Any business faced with losses of a much smaller order of magnitude would be compelled to streamline and improve operations; indeed, that is exactly what many companies have been doing over the past year to combat the effects of the recession. There is no reason why the performance of the £670 billion of annual public expenditure should not be improved in the same way.

This chapter suggests £42.5 billion of spending reductions in 2010-11 that would make a large and immediate impact on the deficit. These spending reductions are not one-offs, and would permanently improve the state of the public finances. They primarily cover England.

Economic developments, for better or for worse, will determine whether these suggestions are adequate. The Chief Executive of the Audit Commission has argued that £50 billion of expenditure reductions need to be found.[42] Should fiscal conditions deteriorate still further, we have also listed £7.5 billion of further annual savings, from 2011-12 onwards, that may need to be contemplated. This brings the total to £50 billion from 2011-12 onwards.

The rationale for our approach is set out below:

- First, there are other approaches we could have taken, but largely decided against:
  - We have not set out "efficiencies" in this report. Up to three quarters of the efficiencies identified in the Government's Gershon Review were never realised,[43] and while there is scope for enormous improvements in public sector productivity, we have not relied on this approach. If we had set out efficiencies, the total level of suggested savings would be much higher. Indeed, Office for National Statistics data suggests that public service productivity fell by 3.4 per cent between 1997 and 2007.[44] Instead, had unit labour costs in the public sector risen in line with the

[42] Steve Bundred, *We've had years of growth – so let's not be afraid of cuts*, The Observer, 5 July 2009 http://www.guardian.co.uk/commentisfree/2009/jul/05/spending-cuts-steve-bundred-audit
[43] National Audit Office, *The Efficiency Programme: A Second Review of Progress*, February 2007. The report concluded that only 26 per cent of the reported efficiency savings "fairly represent efficiencies made".
[44] Office for National Statistics, *Total public service output and productivity,* Economic & Labour Market Review, Vol.3 No.8, August 2009

market sector, where productivity increased by 27.9 per cent over the same period, the same level of public services would have cost £58.4 billion less.[45]

- Neither have we suggested a great deal of top-slicing of budgets, which passes the problem down, although it is not always possible to avoid this action.

• Second, the points below set out in more detail our chosen approach:

  - The economic literature makes clear that it is better to cut government consumption rather than investment expenditure,[46] and we have largely focused our efforts in this area. The Government has already set out plans radically to reduce net investment,[47] and so we do not add much; indeed, transport and energy infrastructure should be the last items to cut.

  - As far as possible, we have therefore opted for cuts to items of government consumption expenditure that are either non-priority and/or are poorly-performing. Items of spending that don't work, or are not essential, should be the first to go.

  - Our paper has been guided by the views of IoD members. From a poll of IoD members in June 2009, we received a number of very sensible suggestions for spending reductions, many of which have been included in this report.[48] We also acknowledge the excellent work that the think tank Reform carried out in this area before April's Budget, and have incorporated a number of their suggestions for reductions.[49]

  - The £42.5 billion of suggested savings are calculated for 2010-11 (and hence, by impacting on baselines, for each year after). The further £7.5 billion of savings that may need to be contemplated in an emergency are calculated for 2011-12 (and hence, by impacting on baselines, for each year after). We have avoided including items, such as an increase to the state pension age, which are sensible for the long term but would yield little in the first one or two years. We have also avoided including asset sales, which are one-off savings, and increasing public sector charges, which are not the same thing as expenditure reductions.

  - As discussed in chapter 1, fundamental reforms to the public sector and social security provision are very necessary, and the sooner they are started the better. However, comprehensive reforms rarely save money in the first year or two, and given the urgent need to reduce the deficit, we cannot afford to wait until the savings from reform programmes kick in. We do not have the luxury of choosing between reforms and cuts.

[45] Centre for Economics and Business Research, *The UK's public sector productivity shortfall is costing taxpayers £58.4 billion a year,* 23 August 2009
[46] See chapter 1 for examples.
[47] Net investment will fall from £44 billion in 2009-10 to £22 billion in 2013-14, although the 2009-10 figure is magnified by the inclusion of brought-forward capital spending
[48] In June 2009 the IoD carried out a Policy Voice survey of 1,002 IoD members, and received 890 suggestions for items of spending to reduce
[49] Reform, *Back to Black*, April 2009

- Third, the variable quality of government data is a pressing concern:
  - We do not have access to much of the more detailed government data, which complicates our task, and we are disappointed that there is no published data linking spending to outputs/outcomes, which is really a pre-requisite for a sensible policy discussion. We would urge the Treasury to work on publishing such data as soon as practically possible.
  - Additionally, while the opacity of government department accounts is no secret, the shocking state of published data should be emphasised. Departmental spending is generally broken down by vaguely-defined objective, making it very hard to see exactly how much is spent, by whom, on a particular programme, function or agency.
  - Spending transparency is a vital reform that would make far more detailed and informed debate over public spending possible. Such a policy has already been implemented at the Federal level in the United States, where a bill co-sponsored by then Senator Barack Obama led to the creation of USASpending.gov. That website provides, for every Federal award: *"1. the name of the entity receiving the award; 2. the amount of the award; 3. information on the award including transaction type, funding agency, etc; 4. the location of the entity receiving the award; 5. a unique identifier of the entity receiving the award."* [50] Numerous US States have also put in place spending transparency.
  - In the UK, there have been moves towards transparency at the local level, with Windsor and Maidenhead and Mid Sussex councils releasing full details of their spending, and others considering a similar move.[51] At a national level, such transparency could be achieved quickly by opening up the COINS database, used by the Treasury and other departments to monitor and control spending, to the public. The task of making the data accessible and comprehensible could be left to civil society organisations if basic documentation provided to departments were also released.

- Last, there is no avoiding the tough politics that such a programme of spending cuts entails:
  - While we understand that many of our suggestions are politically difficult, with annual borrowing approaching £200 billion we cannot see an alternative to making the tough choices that are required.
  - It is no doubt possible to disagree with every single one of our suggestions for public expenditure savings, but critics must provide an answer to the following question: what would you cut instead? For it is clear that a sizeable chunk of government expenditure is going to have to go.
  - Reforms, while necessary, are not on their own a "get out of jail free" card. Difficult though this is, we have tried to share the pain and have covered as many areas of public expenditure as possible. It is in all our interests to reduce the deficit quickly and sustainably, which will help to protect both economic growth and public spending in the long term.

[50] http://usaspending.gov/aboutthissite.php
[51] http://www.midsussex.gov.uk/page.cfm?pageID=8553

There are various ways to present the set of suggested spending reductions. The most obvious might be department by department, which was the approach we took in drawing up our list. However, given that, as far as possible, we have concentrated on reducing items of non-priority and poorly-performing expenditure, we have grouped our suggestions under headings which make clear just how much scope there is to reduce non-essential spending. Our groupings are listed below (numbers rounded to nearest £100 million):

	Saving
1 Tackling areas of spending that are not performing *Reducing items of spending that don't work*	£5.5bn
2 Curbing over-extended government *Stopping government doing things it shouldn't be doing*	£1.6bn
3 Cutting out the middle-man *Reducing agencies and people that get in the way of the frontline*	£6.9bn
4 Tackling specific budgets *Taking a more blanket approach on specific budgets*	£6.5bn
5 Tackling above-inflation indexing *Increasing payments in line with inflation, but no more*	£1.4bn
6 Restraining public sector pay and perks *Recognising that the public sector has had a good deal recently*	£8.7bn
7 Cutting middle-class welfare *Stopping paying benefits to people who don't need them*	£12.0bn
Total annual saving from 2010-11 onwards	**£42.6bn**
8 Further emergency possibilities after 2010 *If fiscal conditions were so bad as to require emergency savings*	£7.4bn
Total potential annual saving from 2011-12 onwards	**£50.1bn**

2.1 Tackling areas of spending that are not performing

Assessing Government programmes is fiendishly difficult. Objectives change frequently and performance measures are replaced at will. Value for money considerations are often obscured by long lead-in times. Vested interests further blur the picture, attached to specific schemes that benefit them specifically, but not perhaps the general public.

Clarity is not impossible though. Policies are launched with a specific objective, and if this is not achieved then the policy must be considered a failure. The fiscal situation demands a tough line from both ministers and civil servants. Efficiency savings are not going to plug the gap in the public finances and so programmes must be cut. Cuts do not always have to be arbitrary.

Some areas of Government spending do not perform sufficiently well to warrant continued commitment. In suggesting the following items for abolition, we are not questioning the intent of the programmes. In many cases, they attempt to tackle vital issues. But important challenges do not necessarily have to be solved by government intervention, and, with respect to the following items, certainly not in its present form.

Item 1

Abolish the Bus Service Operators' Grant.

Annual saving

£451 million from 2010-11 onwards.

This figure is the Department for Transport's budget projection for 2010-11 (England only).[52]

Rationale

The Bus Service Operators' Grant (BSOG), previously known as Fuel Duty Rebate, refunds bus operators the bulk of their fuel duty costs. It has been the subject of long-standing criticisms for being poorly targeted, both in terms of its social and environmental impact.

As the Local Government Association put it last year: *"BSOG is not well focused on the achievement of public policy objectives... it does not encourage efficient use of fuel or cleaner, greener vehicles, nor is it related to tackling congestion, driving up patronage, improved performance, better quality services or improved accessibility."*[53]

Despite some minor tinkering since then, it has not improved and should be abolished. This was also proposed by Oxera, the economics consultancy, in a recent report.[54]

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[52] Department for Transport, *Resource Budget 2009-10* http://www.hm-treasury.gov.uk/d/sbi07_dept_for_transport.pdf

[53] Local Government Association response to *Local bus service support – options for reform*, June 2008

[54] Oxera, *Securing best value and outcomes for taxpayer subsidy of bus services,* June 2009

Item 2

Abolish Sure Start.

Annual saving

£1,456 million from 2010-11 onwards.

In the Department for Children, Schools and Families (DCSF) budget, the totals for Sure Start also include Childcare and Nursery Education funding. Comparing figures from a written Parliamentary answer[55] and the 2009 DCSF Departmental Report, it is clear that 60 per cent of funding in 2006-07 was spent on specific Sure Start programmes. Our saving is therefore calculated as 60 per cent of the planned total spend in 2010-11 for Childcare and Nursery Education.[56] This is likely to be an underestimate given the expansion of Sure Start in recent years.

Rationale

Sure Start is the centrepiece of the Government's plans to eradicate child poverty by 2020. It aims to integrate a range of services, including childcare, health and early education. Introduced in 1999, local Sure Start programmes have been set up in disadvantaged areas across the country, run (in the main) by local authorities. The intent is admirable.

But despite the massive costs of this approach, Sure Start is failing to deliver on its promises:

- Sure Start schemes have not appeared to be helping disadvantaged children do better in school and society. Consistently poor SATs results reveal a distressing lack of change: two out of five of this year's 11 year olds (a cohort who would have had at least some access to Sure Start schemes from age two) will go to secondary school this September without having reached a sufficient level of competency in all three core subjects.[57] Illiteracy and innumeracy remain a stubborn feature of Sure Start area primary schools (those with a high percentage of children on free school meals): in 2003 the percentage of pupils on free school meals achieving the expected Level 2 (or above) at Key Stage 1 was 69 per cent; in 2008, that figure had not changed, remaining at 69 per cent.[58]

- In terms of the programme's actual management, official reports have not been positive. A National Audit Office assessment in 2006 found that neither Councils nor the centres themselves were aware of what activities cost, and were therefore unable to use resources cost-effectively.[59] The National Evaluation of Sure Start concluded that programmes provided by existing

[55] House of Commons Hansard, Column 241W, Sure Start Programme: Per Capita Costs, 10 June 2008
[56] Department for Children, Schools and Families, *Departmental Report 2009*, Table 8.4
[57] Department for Children, Schools and Families, *National Curriculum Assessments at Key Stage 2 in England 2009 (Provisional)* http://www.dcsf.gov.uk/rsgateway/DB/SFR/s000865/index.shtml
[58] Department for Children, Schools and Families, *Attainment by Pupil Characteristics, in England 2007-08*, Table 2, p.19; Department for Children, Schools and Families, *Attainment by Pupil Characteristics, in England 2002-03*, Table 9, p.25
[59] National Audit Office, *Sure Start Children's Centres*, December 2006, p.8

health services offered more benefits to disadvantaged children than Sure Start ones.[60]

- The Joseph Rowntree Foundation has stated that the Government will fall short of its (Sure Start) target of cutting child poverty by 2010 by some 600,000 children, with 2.3 million still below the poverty line.[61] Some estimates are higher still. End Child Poverty – a coalition of bodies including Barnardo's, Unicef and the NSPCC – reported in 2008 that up to 5.5 million children in the UK were "struggling" on the brink of poverty.[62] The Joseph Rowntree Foundation also maintains that recessionary pressures do not have any bearing on this: government programmes to eradicate child poverty have simply not worked.[63]

Tackling the serious issues of child poverty and stagnating social mobility demands the most radical thinking and committed effort. Simply boosting funds for a programme (which the evidence suggests is not working) is maybe the easiest strategy, but it is not the right one. In this case, spending has been confused for commitment.

Bringing children out of poverty is a marathon, not a sprint, and success relies on improving life chances. That hinges on education, and as suggested in other parts of this paper, the best way for schools to deliver what a community needs is to be given more freedom. A heterogeneous schools system, with competition at its heart, drives improvement. Good schools that produce results should be allowed to take over failing ones, meaning that early years education would be offered by those that can and want to, rather than just those that have to. Centrally directed schemes like Sure Start have not worked so far; now is the time for something new.

Item 3

Abolish Building Schools for the Future.

Annual Saving

£2,300 million from 2010-11 onwards.[64]

Rationale

The Government launched the ambitious Building Schools for the Future (BSF) programme in 2003. Aiming to rebuild half of the secondary school estate, extensively remodel 35 per cent and refurbish the rest by 2023, BSF is a public-private partnership with a projected total cost of £52-55 billion.[65] This extensive capital investment was hoped to be a catalyst for educational improvement.

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[60] Belsky et al, *The National Evaluation of Sure Start Research Team: Effects of Sure Start local programmes on children and families: early findings from a quasi-experimental, cross sectional study*, Child: Care, Health and Development, 32:6, 2006, p.753

[61] Donald Hirsch, *Ending Child Poverty in a Changing Economy*, Joseph Rowntree Foundation, 2009

[62] BBC News, *Millions of UK young in poverty*, 30 September 2008 http://news.bbc.co.uk/1/hi/uk/7641734.stm

[63] ibid

[64] Reform, op.cit.

[65] National Audit Office, *The Building Schools for the Future Programme: Renewing the secondary school estate*, February 2009, p.11

Current progress, however, makes attainment of BSF's objectives increasingly uncertain. The National Audit Office and House of Commons Public Accounts Committee have both concluded recently that poor planning makes the BSF time-line untenable, and that the Department (along with Partnerships for Schools) has wasted money on consultants and extravagant pay.[66] The value for money of the public-private approach has been brought into question, with poor tendering and commercial procedures identified. In short, BSF has so far been a poorly managed programme.

Renewing educational infrastructure is important. But the BSF programme is in danger of following the pattern of other poorly structured public-private initiatives, with a significant future liability for taxpayers in return for far less than originally promised. Fiscal pressures brought on by the Government's approach to spending now leave all areas of education funding under threat. In these circumstances, personnel and equipment must come first. From now on capital investment in schools should be the responsibility of schools themselves. Once sustainable public finances are restored, investment in schools infrastructure can resume again.

Item 4

Abolish the Education Maintenance Allowance.

Annual saving

£530 million from 2010-11 onwards.

This figure is the Department for Children, Schools and Families' projection for 2010-11 spending on Education Maintenance Allowances.[67]

Rationale

Launched in 2004, the Education Maintenance Allowance (EMA) is a means-tested benefit paid to teenagers aged between 16 and 19 who stay in school or further education beyond the statutory age of 16. It is worth up to £30 a week, is paid directly into teenagers' bank accounts, and does not have to be spent on educational materials, or school or college transport etc. It is designed to increase participation in education beyond the current school leaving age of 16.

As Chart 2.1 shows, however, EMA has failed to make any real impact on participation rates.

[66] Ibid; Public Accounts Committee, *Schools for the Future Programme: Renewing the secondary school estate,* 27th Report of Session 2008-09, May 2009
[67] Department for Children, Schools and Families, *Departmental Report 2009,* Table 8.4

Chart 2.1: Participation rates of 16-18 year olds in England [68]

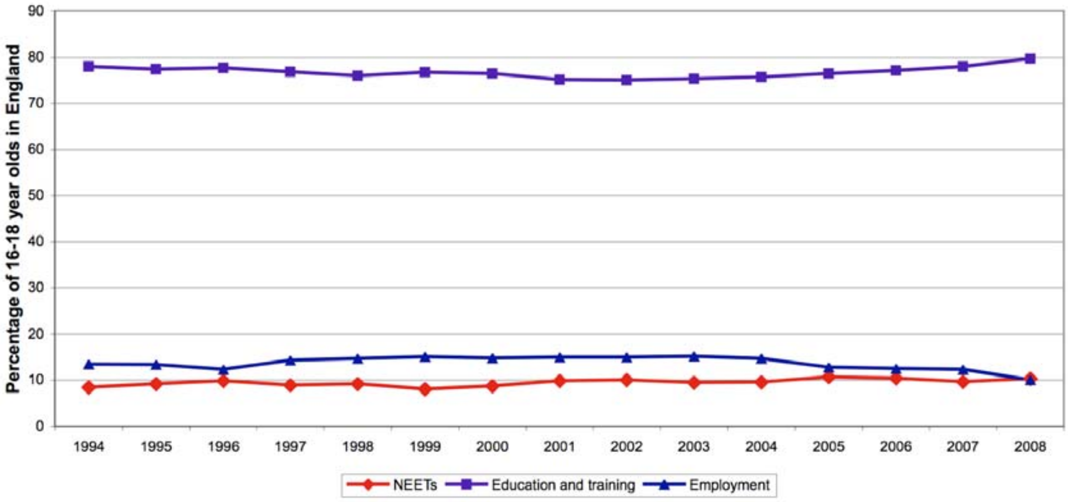

Chart 2.1 shows that while there has been an increase in the percentage of 16-18 year olds in education or training since the EMA was launched, from 75.7 per cent in 2004 to 79.7 per cent in 2008, this is negligible in the context of the historical trends. Over the same period, there has also been a decrease in the proportion of 16-18 year olds in employment, from 14.7 per cent to 10.0 per cent. This suggests that a number of teenagers who were previously in employment are now in education or training. At the same time, the number of 16-18 year olds not in education, training or employment (NEETs) increased from 9.6 per cent to 10.3 per cent between 2004 and 2008.

These are poor results, and reveal that EMA is not a good use of money. It should be abolished.

Item 5

Halt further orders and upgrades for the Eurofighter.

Annual saving

£740 million from 2010-11 onwards.

This figure is based on the estimate produced by the think tank Reform, who made the same suggestion.[69] Reform found that the Eurofighter Tranche 3 and planned upgrades would cost a total of £8 billion over nine years, or £888 million annually. We have reduced Reform's annual savings figure to allow for the Government's subsequent commitment to buy an additional 40 Eurofighters under the so-called Tranche 3a.[70] The remaining scope for savings comprises 48 further planes slated for Tranche 3b, plus the currently planned upgrade programme.

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[68] Department for Children, Schools and Families, *Participation in Education, Training and Employment by 16-18 Year Olds in England*, 16 June 2009, Table A13. The series begins in 1994 due to a statistical break in the data, which means that data from before 1994 is not perfectly comparable

[69] Reform, op.cit.

[70] Reuters, 31 July 2009 http://www.reuters.com/article/marketsNews/idUSLV58741420090731

Rationale

The Eurofighter was conceived during the Cold War to combat the Soviet air force. It is wholly unsuited to the demands of current conflicts such as that in Afghanistan. The US government is making similar decisions, with the Senate voting in July to cancel further orders for the F-22 fighter jet, which, like the Eurofighter, was designed in the late 1980s for cold-war operations.[71] The UK already has 34 Eurofighter Typhoons in service,[72] now with a further 40 on the way under Tranche 3a, and we cannot afford to buy 48 more and pay for further upgrades.

[71] New York Times, 21 July 2009
http://www.nytimes.com/2009/07/22/business/22defense.html

[72] Defence Analytical Services and Advice, *UK Defence Statistics 2008,* 24 September 2008, Table 4.9

2.2 Curbing over-extended government

A reliable feature of any government is that it will try to grow. But a lack of realism over what government can – or should – try to achieve, often leads to an over-stretch which has expensive and often undesirable consequences.

For instance, the rationale behind enormous centralised databases may seem superficially legitimate, but, as has been extensively documented by the Joseph Rowntree Reform Trust and others, the implications for data security and personal liberty continue to outweigh any 'efficiency' considerations.[73] More to the point, countless examples attest to the fact that government is poor at procuring, maintaining and utilising such systems. In many of the worst cases, such as with the former Child Support Agency, lives have been ruined.

When government attempts to do too much, the consequences are not just expensive, they are often tragic. Billions have been lost, and will continue to be lost as long as Government remains committed to over-ambitious, unnecessary projects and publicity. The following items represent our suggested savings in this area.

Item 6

Halve the government advertising and publicity budget.

Annual saving

£270 million from 2010-11 onwards.

This figure represents half of the 2008-09 (latest year available) spending of the Central Office of Information, which handles central government's advertising, marketing and communications.[74]

Rationale

Whether Government advertising is effective at all is a legitimate question, but the principle reason for reductions in this area is that expenditure has grown massively over the past decade, from £108 million in 1997-98 to £540 million in 2008-09.[75] This is a classic example of over-reach. According to recent reports the UK government is now the country's biggest advertiser.[76]

Cutting government advertising and publicity expenditure in half would still leave the Central Office of Information spending more than double the amount it spent in 1997, while realising a saving of £270 million.

[73] See, for example: Joseph Rowntree Reform Trust, *Database State,* March 2009
[74] Central Office of Information, *Annual Report and Accounts 2008-09*, http://www.coi.gov.uk/documents/coi-annualreport2008-9.pdf
[75] Ibid; Central Office of Information, *Annual Report and Accounts 1997-98*, http://www.coi.gov.uk/documents/anrep9798.pdf
[76] http://www.warc.com/News/TopNews.asp?ID=25438

Item 7

Abolish Contact Point, the children's database.

Annual saving

£44 million from 2010-11 onwards.[77]

This figure represents the annual running costs of the database. The £224 million set-up cost cannot be recouped.

Rationale

Contact Point is a database containing the personal details of every child in the UK up to the age of 18, and is designed to reduce administrative burdens for people working with children. It has, however, been plagued by controversy, with data safety experts drawing attention to serious security failings.[78] 390,000 people will have access to the details of 11 million children, including those whose families have never been in need of social care services.

The Joseph Rowntree Reform Trust has also found that Contact Point is almost certainly illegal under European human rights or data protection law, *"because of the privacy concerns and legal issues with maintaining sensitive data with no effective opt-out, and because the security is inadequate (having been designed as an afterthought), and because it provides a mechanism for registering all children that complements the National Identity Register"*.[79]

Given the Government's appalling data security record, the children's database is an accident waiting to happen. It should be abolished.

Item 8

Abolish the NHS National Programme for IT (NPfIT).

Annual saving

£1,181 million from 2010-11 onwards.

The most recent Public Accounts Committee report on the NPfIT puts its total cost at £12.7 billion in 2004-05 prices.[80] We estimate the equivalent cash figure at £14.6 billion (the increase in the RPI since April 2004). Of that, £3.6 billion had been spent by March 2008, leaving around £11 billion to be spent over the next seven years, which is £1.6 billion per annum. This remaining spending will be split between the core IT contracts and local NHS implementation costs.

Of course, not all of that would be saved because the IT contractors would charge cancellation fees. We do not know for certain how big they would be, but it would be very surprising if they were more than one-third of the remaining £900 million annual value of the contracts, or £300 million a year. Cancellation would

[77] Reform, op.cit.
[78] See, for example, Telegraph, 3 August 2009 http://www.telegraph.co.uk/news/newstopics/politics/5966278/ContactPoint-database-could-put-11-million-children-at-risk.html
[79] Joseph Rowntree Reform Trust, *Database State,* March 2009, p.18
[80] Public Accounts Committee, *The National Programme for IT in the NHS: Progress since 2006*, January 2009

also entail some offsetting NHS spending on alternative local systems. But since the Department of Heath estimates NHS savings from the NPfIT itself to be only £119 million per annum,[81] cancellation should not entail much additional spending on alternatives.

Overall, on a cautious basis, we therefore estimate net savings at £1,181 million per annum.

Rationale

The NPfIT should be abolished for four reasons: first, it was never wanted by most NHS clinicians, and they remain opposed; second, it is running way behind schedule, and what has been delivered so far on patient care records doesn't work properly;[82] third, there are major and unresolved issues over patient confidentiality; and fourth, it is far too expensive.

The centrepiece of the NPfIT, the Detailed Care Record, raises particularly serious questions: *"First, there is a safety problem: if many different health professionals can write to a record, but none of them is responsible for curating it and maintaining its quality, it can rapidly become a mess. This is the wikipedia model of uncontrolled collective authorship, and it appears reckless for the NHS to embrace it for medical records just as wikipedia is moving to a more controlled model. Second, there are serious privacy issues: it has been reported that making GP records available to social workers has eroded trust in GPs and made low-income single mothers less likely to seek treatment for post-natal depression. Putting everything into one pot not only makes privacy compromises more likely (more users have access to a larger set of data) but also precludes careful consideration of context-specific information flows. It also becomes less clear who is the 'controller' of the data."* [83]

It would be far better to allow local healthcare providers to use and develop the IT they have already purchased, and ensure that data can be passed from one provider to another when appropriate. With firms such as Google and Microsoft developing personal health records, this approach would cost the taxpayer very little.

Item 9

Abolish identity cards.

Annual saving

At least £55 million from 2010-11 onwards.

This figure is the Identity and Passport Service's (IPS) estimate of the gross costs of providing identity cards to British and Irish citizens in 2010-11. This annual cost is projected to rise to £175 million by 2018-19.[84]

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[81] National Audit Office, *The National Programme for IT in the NHS: Progress since 2006,* May 2008

[82] Public Accounts Committee, *The National Programme for IT in the NHS: Progress since 2006*, January 2009

[83] Joseph Rowntree Reform Trust, *Database State,* March 2009, p.16

[84] Identity & Passport Service, *National Identity Service Cost Report,* May 2009, Table 5 http://www.official-documents.gov.uk/document/other/7777147145/7777147145.pdf

This figure does not include the costs of biometric passports, nor the costs common to both biometric passports and identity cards. Neither does it include potential fee income, for which the IPS does not provide an estimate.

Expert analysis has concluded that the IPS's projections for the costs of the identity card scheme (in isolation from the biometric passport scheme) are over-optimistic, and that identity cards will consume a larger proportion of the total budget for the two schemes than forecast by the IPS: *"The splitting of the development of the ID card programme from the passport until 2011 hints that the actual costs required for passports over that period is just 23 per cent to 24 per cent of the total. This differs significantly from the Government's claims that 70 per cent of the cost of the ID programme would have to be spent on biometric passports in any case. The dramatic reduction of 'common' costs after 2011 and significant rise in both passport and ID cards costs in later years seems to confirm that the two are not as closely linked as has previously been claimed. The inclusion of reduced, but unspecified, 'common' costs provides an accounting mechanism for future cross-subsidisation."* [85]

The saving is therefore likely to be a cautious underestimate.

Rationale

The identity cards programme has always been a serious concern on civil liberties and privacy grounds, especially since there would be few safeguards in the UK, in contrast to other EU countries with identity cards but with strong constitutional protection.[86] Now that the Government has decided to make identity cards voluntary, the programme will not even assist national security. Even if we accept the Government's own cost projections (which as explained above may be serious underestimates), abolishing the programme will still save up to £1.3 billion over the next decade.

Item 10

Abandon plans to extend the compulsory school leaving age to 18.

Annual saving

£45 million from 2010-11 onwards.

According to the Government's own estimates, spending to raise the school leaving age begins with £226 million of one-off expenditure on training additional teachers and providing additional FE facilities. We assume this is spread evenly over the years 2010-11 to 2014-15, implying an expenditure of £45 million per annum. That is our estimate of near-term annual savings, although from 2013 onwards the savings increase from not having the additional pupils in school. By 2016-17 they are running at £742 million per annum.[87]

[85] London School of Economics Identity Project, *Analysing the Home Office's Identity Cards Cost Report,* May 2008 http://is2.lse.ac.uk/IDcard/s37Response4.pdf
[86] Joseph Rowntree Reform Trust, *Database State,* March 2009, p.25
[87] Department for Children, Schools and Families, *Impact Assessment of the 2008 Education and Skills Bill*
http://publications.dcsf.gov.uk/eOrderingDownload/E&SkillsImpactAssessment.pdf

Rationale

Many of the young people who do not stay on in school or training aged 16 and 17 will have already dropped out of education before they reach 16. Indeed, "unauthorised absence" (truancy, in plain English) has increased steadily over the past decade, from 0.76 per cent of half days in 1996-97 to 1.01 per cent of half days in 2007-08 – this represents an increase in unauthorised absence of 39 per cent in 11 years.[88] In England alone, there are almost 1.2 million children overall, and over 650,000 in secondary schools, who miss at least 10 per cent of school days (whether through authorised or unauthorised absence).[89]

Low post-16 participation is a symptom of a deeper problem: the failure to ensure that young people master the basic skills early in their educational careers. Almost 30 per cent of 11 year olds fail to achieve the expected standard for their age (Level 4) in both English and maths,[90] while, five years later, less than half achieve five or more A*-C grade GCSEs including English and maths.[91] The vast majority of those children who leave primary school lacking the necessary literacy and numeracy skills to make a success of the secondary curriculum will fail to get five or more good GCSEs at 16. Those who fail to get five or more good GCSEs are in turn much less likely to continue in education and training in the post-compulsory years.[92] It would surely be better to focus on improving the quality of schooling, so that young people have the basic skills and the desire to carry on in school after 16.

Compulsory education or training for 16 and 17 year olds, with the ultimate threat of criminalisation, will not make people work harder and indeed is likely to add to disaffection. As the chairman of the Professional Association of Teachers, Geraldine Everett, has said: *"To make them [16 and 17 year olds] conscripts is likely to reinforce failure, leading to even greater disaffection. Enforcement could lead to mass truancy, further disruption to other learners and staff, maybe even needless criminalisation if enforcement measures are imposed."*[93]

The other question that needs to be addressed is the 10 per cent of 16-18 year olds who are not in education or training but are actually in employment.[94] What possible benefit could be gained by potentially criminalising this section of society?

Raising the compulsory school leaving age to 18 is an ill-thought out proposal, will not work, and is likely to have damaging effects on the people it is trying to help. It should not go ahead.

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[88] Department for Children, Schools and Families, *Pupil Absence in Schools in England, including Pupil Characteristics: 2007-08,* February 2009, Table 1.1

[89] Department for Children, Schools and Families, *Pupil Absence in Schools in England, including Pupil Characteristics: 2007-08,* February 2009, Table 3.2

[90] Department for Children, Schools and Families, *National Curriculum Assessments at Key Stage 2 in England 2009 (Provisional)*, August 2009, Table 4a

[91] Department for Children, Schools and Families, *GCSE and Equivalent Results in England, 2007/08 (Revised)*, January 2009, Table 2

[92] Mike Harris, Consultation response to *Raising Expectations: staying in education and training post-16,* Institute of Directors, June 2007

[93] Quoted in The Times, *Raising school leaving age 'could give thousands a criminal record',* 31 July 2007 http://www.timesonline.co.uk/tol/news/uk/education/article2169812.ece

[94] Department for Children, Schools and Families, *Participation in Education, Training and Employment by 16-18 Year Olds in England*, 16 June 2009, Table A13

2.3 Cutting out the middle-man

The proliferation of 'middle-men' has been a distinctive characteristic of government in recent years, with multiple unknown quangos now sown into the fabric of UK governance. Gone are the days when politicians made decisions, civil servants enacted them and frontline workers responded.

The large number of agencies and people that lie between Treasury funding and the front line of delivery soak up resources that could be used directly to improve people's lives. Concerted, targeted cuts in this area of Government would yield considerable savings, without endangering the quality of public services. Our suggested savings are below.

Item 11

Halve public sector spending on consultants.

Annual saving

£1,100 million from 2010-11 onwards.

To avoid double-counting with the NPfIT suggestion in section 2.2, this figure is half the amount spent by the public sector on consultants, excluding consultancy spending by the NHS. The public sector spent £2.8 billion on consultants in 2005-06 (latest year available), of which around £600 million was spent by the NHS.[95]

To be cautious, it is assumed that public sector spending on consultants has not increased since 2005-06, although it very likely has, and it is also assumed that the entire NHS consultancy bill is concerned with the NPfIT, although there is likely to be a certain proportion of NHS spending on consultancy outside the NPfIT.

Rationale

In a downturn, external consultants are often the first item of expenditure to be reduced, and there is no reason why in a fiscal crunch it should be any different. Indeed, businesses have been greatly cutting back on their use of consultants over the past year, as would be expected.

The most recent reports on central government's use of consultancy, by the National Audit Office and the Public Accounts Committee, found enormous scope for efficiency savings.[96] As the National Audit Office concluded: *"Public bodies should start with the presumption that their own staff are best fitted for their requirements. While it will often be the case that they need to purchase specific expertise from consulting firms, more generalist requirements can be met more cost-effectively by internal resources."*[97]

[95] National Audit Office, *Central government's use of consultants,* December 2006; House of Commons Public Accounts Committee, *Central government's use of consultants,* June 2007. Both reports provided the same figure for spending on consultants *by the entire public sector* i.e. not simply central government
[96] Ibid.
[97] National Audit Office, *Central government's use of consultants,* December 2006

The largest area of consultancy spending, according to the National Audit Office, is IT, and given the Government's woeful record in delivering secure IT systems on time and on budget, this should be the first area to look for savings by scaling back on IT ambitions.

Although we recognise that some use of outside consultants is beneficial, we recommend that public sector consultancy expenditure should be cut in half.

Item 12

Reduce non-frontline staff in health and schools by 10 per cent.

Annual saving

£921 million from 2010-11 onwards.

There are 384,653 non-frontline staff (see below for details) employed in the state's health and schools provision. Assuming the annual gross pay of these non-frontline staff corresponds to the public sector mean of £23,943,[98] the total annual wage cost is £9.2 billion. A targeted ten per cent cut among this specific group of personnel by 2010-11 would deliver a saving of £921 million to the Exchequer.

This estimated saving will almost certainly be a low estimate, as the saving does not include office and other employment costs nor any future gains accrued from reduced pension liabilities. There may be an increase in unemployment benefits following this cut, although it would be possible to make a 10 per cent reduction in costs through reduced hours rather than lowering the headcount.

Rationale

Managers are an essential part of any public service. The delivery of efficient services depends upon effective management of resources and personnel, and the productivity of frontline workers is diminished when administrative tasks consume their time.

However the growth in managerial positions in our key services has far outstripped the benefits such employees bring. Between 1998 and 2008 the number of doctors in the NHS increased by 45.5 per cent, but managerial positions increased by 75.8 per cent.[99] Administrative staff places in the English schools system increased by 82 per cent between 1997 and 2009, while regular teacher numbers have increased by just 10 per cent,[100] a pattern echoed across the public sector. Over the same period the productivity of public services has declined by 3.4 per cent.[101] Such backroom positions, far from freeing doctors and teachers from bureaucracy, have increased the burden of it.

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[98] Office for National Statistics, *Annual Survey of Hours and Earnings*, 2008, Table 13.7a. Mean gross annual pay for all employee jobs in the public sector.

[99] The NHS Information Centre, *NHS HCHS and General Practice Workforce (England) – master table 1998–2008*, 2009. Total doctor numbers compared to total 'manager and senior manager' numbers.

[100] Department for Children, Schools and Families, *School Workforce in England*, June 2009, Tables 1 and 14

[101] Office for National Statistics, *Total public service output and productivity,* Economic & Labour Market Review, Vol.3 No.8, August 2009

According to the most recent data available, nearly a quarter of NHS staff and 9 per cent of state school employees are involved in explicitly non-frontline functions.

Table 2.1: Non-frontline staff in the NHS and schools

Organisation	Total staff	Non-frontline	Percentage of total
NHS	1,368,693	313,853	22.9
Schools (England)	786,200	70,800	9.0
Total	**2,154,893**	**384,653**	**17.9**

The NHS 'non-frontline' figure includes: central functions (105,354); hotel, property and estates (73,797); managers and senior managers (39,913); other non-medical staff (353); and other (non-clinical) GP practice staff (92,436).[102]

The schools 'non-frontline' figure refers directly to those employees classified as 'administrative'. Teaching assistants, technicians and unspecified 'other' staff are not included in our calculation of 'non-frontline', although it should be noted that there has been an increase in teaching assistants of 200 per cent and 'other support staff' of 120 per cent since 1997.[103]

Item 13

Reduce the size of the civil service by 10 per cent.

Annual saving

£1,233 million from 2010-11 onwards.

Civil service numbers during the first quarter of 2009 averaged 526,000.[104] If we assume the staff from the quangos (see later in this section for our suggestions) have already been removed (to avoid any potential double counting of savings), then the total civil service workforce stands at around 515,000. Assuming the annual gross pay of these civil service staff corresponds to the public sector mean of £23,943,[105] the total annual wage cost is £12.3 billion. A targeted ten per cent cut among this specific group of personnel by 2010-11 would deliver a saving of £1,233 million to the Exchequer.

This estimated saving will almost certainly be a low estimate, as the saving does not include office and other employment costs nor any future gains accrued from reduced pension liabilities. There may be an increase in unemployment benefits following this cut, although it would be possible to make a 10 per cent reduction in costs through reduced hours rather than lowering the headcount.

Rationale

In recent years civil service numbers have dropped considerably. From a peak of 569,000 in 2005, they fell to 523,000 by the end of 2008. However this decrease follows an extraordinary rise between 1999 and 2005, when over 66,000 people

[102] The NHS Information Centre, op.cit. Headcount at 30 September 2008
[103] Department for Children, Schools and Families, *School Workforce in England*, June 2009, Tables 1 and 14. Full time equivalent at January 2009
[104] Office for National Statistics, *Public sector employment*, June 2009, Table 1, p.18
[105] Office for National Statistics, *Annual Survey of Hours and Earnings*, 2008, Table 13.7a. Mean gross annual pay for all employee jobs in the public sector.

joined the ranks of the civil service. Moreover, in recent quarters the numbers have started to creep up once again.[106]

The costs associated with these additional employees are significant, yet there is little if any evidence of an improved service. Departing Government ministers have gone as far as to suggest the delivery of programmes and policy would be better served by a civil service half the size of the one currently in place.[107]

We would not go this far, but just as we have suggested a targeted cut in 'backroom' staff in two key public services, a similar programme should be implemented in the core civil service. Some particular areas should (and will be able to) accommodate staff reductions greater than 10 per cent, alleviating the pressure on harder pressed or better performing areas. For example, while some of Defence Equipment and Support's 25,000 staff have overseen a lamentable deterioration in defence procurement and provision, the work of Job Centres is increasingly important. Headcount reductions should be applied across the Government surgically, not indiscriminately.

Item 14

Scale down 'Local Education Authorities' (LEAs) in England.

Annual saving

£599 million from 2010-11 onwards.

This figure is derived from the addition of the 'Statutory and Regulatory functions', 'Monitoring National Curriculum' and 'Supply of School Places' budget lines of the 150 English LEA budget statements for 2007-08 (latest year available). We were able to obtain 143 budget statements, and have extrapolated an average from these for the missing seven LEAs.[108]

With a total budget (not including dedicated schools spending) of over £4.5 billion, this cut represents just 13 per cent of LEA spending. The majority of spending – allocated for special needs provision, transport, etc – remains unaffected; we have chosen only those areas that are already (or should be) provided elsewhere.

Rationale

Government reforms in 2006 officially did away with the term 'Local Education Authority', with LEAs folded into – or rebranded as – the 'Education' or 'Children's Services' departments of certain, spatially significant local authorities.[109]

There are currently 150 LEAs in England. While responsible for the delivery of a variety of children's and young people's services, the primary function of LEAs is the management of taxpayer maintained schools. Operating in between the relevant central government department (currently the Department for Children, Schools and Families) and schools themselves, LEAs manage many of the

[106] Office for National Statistics, *Public sector employment*, June 2009, Table 1, p.18
[107] Lord Jones, former trade minister, in evidence to the Public Administration Committee's enquiry into Good Government, January 2009
http://www.publications.parliament.uk/pa/cm200809/cmselect/cmpubadm/c97-ii/c9702.htm
[108] Average LEA spend on the three specified budget items was £3.9 million.
[109] Unitary, metropolitan, county and borough

bureaucratic elements of the schools system, such as the allocation of school places, disbursement of funds and some regulatory duties.

The development of state education over the past twenty years has made the role LEAs play in schools increasingly anachronistic. With multiple regulatory agencies now in operation, funding largely allocated in Whitehall, infrastructure improvement handled by quangos and schools themselves becoming more independent, LEAs are an increasingly unnecessary bureaucratic extra. Removing the LEAs' 'statutory and regulatory' function (whether through total abolition or reallocation to other bodies) and their responsibility to monitor proper application of the national curriculum could save the taxpayer more than £560 million.

Moreover, as more schools begin to enjoy the freedom to operate independently of the centre, the need for expensive and unpopular school places allocation systems can be phased out. This will realise a further saving of £39.2 million.

Critically, this cut would in no way affect the funding going to England's state schools. These potential savings have been located within the LEA budget, unrelated to the distinct schools budget. Further still, monies allocated for special educational needs, transport and other duties remain untouched. These cuts target the specific bureaucratic functions of LEAs that are either unnecessary or undesirable, slimming down the 'middle-men' functions that clog up the state education system.

Item 15

Slim down the Department for Communities and Local Government (DCLG).

Annual saving

£1,317 million from 2010-11 onwards.

DCLG plans to spend £37.4 billion in 2010-11, £32.2 billion of which is earmarked for housing and support for local authorities.[110] A targeted 25 per cent of the remaining planned budget delivers a saving of £1,317 million.

Rationale

DCLG is responsible for the funding and regulating of local authorities, housing and some redevelopment. Demand for social housing has been increasing across the UK in recent years, and therefore central government spending on housing should therefore be maintained.

However there are discretionary schemes managed by the department that are not so essential, and the department itself is a substantial organisation. Housing and local authority funding aside, a 25 per cent cut from the department's budget would be possible.

Cuts should fall first on the programmes and target setting devices which manage local authorities. More emphasis should be put on improving local democracy and accountability instead. Users of local services are the best judges of their

[110] Department for Communities and Local Government, *Annual Report 2009,* Annex C, Table 1

quality, and ensuring that local authorities are fully transparent to local residents is a much more effective way of prioritising and assessing councils' actions.

Item 16

Rationalise the framework of regional government and business support.

Annual saving

£940 million from 2010-11 onwards.

The figure represents a 50 per cent reduction of the projected annual budgets in 2010-11 of the Regional Development Agencies (including Business Link spending), and the Government Offices of the Regions. Regional Development Agency (RDA) budgets in 2010-11 are projected to total £1,762 million[111] and Government Offices of the Regions 2010-11 budgets are projected to total £118.5 million.[112] UK Trade and Investment funding would remain untouched.

Rationale

The current system of regional governance and business support is flawed in a number of ways:

- There are two regional bodies – RDAs and Government Offices of the Regions – which is unnecessary.
- Business Link, the business support and advice service, is delivered at both the regional and the national level, which risks creating confusion and duplication.
- Efforts to attract FDI into the UK are made at both the national level (UKTI) and the regional level (overseas offices of the RDAs). It would make far more sense for these efforts to be made at the national level only, making the picture clearer for foreign investors.
- Many of the business support schemes are ineffective or are sticking plaster remedies to systemic problems such as over-regulation.
- The system lacks focus on vital infrastructure development which is crucial for business needs.

The IoD is currently developing a detailed policy in this area, and the TPA has previously taken a strong position on regional governance. We estimate that a clearer and more focused system could deliver savings in the order of 50 per cent of the current cost, or £940 million. It is possible to deliver a better package than currently on offer at a lower cost.

[111] Department for Business, Innovation and Skills, *RDA Funding and Financial Governance* http://www.berr.gov.uk/whatwedo/regional/regional-dev-agencies/funding-financial-gov/page20136.html. NB: this does not include the European Regional Development Fund (ERDF) and the Rural Development Programme for England (RDPE). Both programmes run from 2007 to 2013 and together amount to £9 billion

[112] Government Offices of the Regions, *Network Corporate Plan 2008-11*, Table 6. p.20

Item 17

Begin a thorough rationalisation of taxpayer funded quangos and public bodies, including total abolitions, funding reallocations and budget cuts.

Annual saving

£818 million from 2010-11 onwards.

For each organisation listed in this item, we have given a saving. The £818 million is the sum of the individual savings.

Rationale

While a number of items throughout this report suggest scaling back or abolishing various quangos, there are so many non-departmental public bodies we have decided to address them as one. The list of recommendations below is extensive, but it should not be seen as a complete program of cuts. The sheer number of organisations that must be radically reoriented – or done away with altogether – makes a complete list prohibitively long. The reforms laid out below will hopefully provide a first step in what will be a broad rationalisation of public bodies. None of the suggestions below duplicate any of our other recommendations:

- *Abolish the Serious Organised Crime Agency (SOCA) and re-allocate half its budget to the Metropolitan Police to tackle serious and organised crime.* SOCA was set up in 2006 with the objective to "make life hell" for high-level criminals;[113] it has flattered to deceive, with 148 former police officers retiring or returning to frontline policing within two years of moving to SOCA, complaining of a lack of enforcement activity.[114] As with many quangos, SOCA duplicates a lot of work already done by the Metropolitan Police. The Met has a good track record as the lead force in tackling serious and organised crime, and as the country increasingly moves towards a collaborative model of policing (wherein individual forces cooperate closely with their neighbours), local forces may be better placed to work together on regional serious crime, overseen by the Met. In addition to this, the City of London police force still deals with cases of high level fraud and given its experience and existing knowledge of the field it makes sense for this to continue. SOCA should be abolished and half of its projected budget should be returned to the Met as it regains control of serious and organised crime. This would save £231 million.[115]

- *Scrap Comprehensive Area Assessments (CAA).* The Audit Commission monitors the use of public money by English and Welsh local authorities, NHS trusts and many other public bodies. Part of this duty involves an annual 'assessment' of local authorities' performance against set targets, previously based upon a 'star rating' system. This system was replaced in April 2009 by CAAs, which will seek to asses the delivery of services from a less local authority focused perspective. Ofsted, the Care Quality Commission and other quangos will be involved. However this 'assessment' role of the Audit Commission has been heavily criticised, with Liberal Democrat Shadow

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[113] Neville Dean and David Barrett, *New crime agency to "make life hell" for gangsters – Blair"*, Press Association, 3 April 2006

[114] Reform, *A new force*, February 2009

[115] Home Office, *Departmental Report 2008-09*, Table 5.2

Chancellor Vince Cable calling the star rating system "disrespectful" to Councils and "utterly perverse".[116] The CAAs will not improve matters, as they rely less on inspection and more on information provided by public bodies. The complicated involvement of numerous bureaucracies increases the possibility of greater cost. Users of a service are the best judges of how well it is performing. Significant savings can be made by taking away the Audit Commission's responsibility for monitoring public bodies' performance against centrally prescribed targets. Ensuring local government and public bodies are fully transparent to local residents and users is a much more effective method of assessing their performance. The Audit Commission's role should be to continue its excellent work of auditing accounts and detecting fraud, which it should be more than capable of doing with a halved budget. The total saving would be £107.8 million, based on half the Audit Commission's spending in 2008-09 (latest year available).[117]

- *Abolish the Standards Board for England.* The Standards Board for England oversees an ethical code of conduct for a range of bodies across the country, including Councils and police authorities. It focuses on Councillors and members of these bodies rather than general staff. While it is crucial that those serving in public office are ethical, transparency – in everything from finance to outside interests – will ensure accountability, without the need for an expensive and often ineffective body enforcing a code of conduct. The Standards Board for England spent £8.25 million in 2008-09 (latest year available).[118]
- *Abolish the Office for Fair Access (OFFA) and AimHigher.* OFFA and AimHigher aim to promote access to higher education for under-represented groups. These groups do nothing to improve the standard of education. The National Audit Office reported that the biggest obstacle to entering higher education is under-performing state schools, so bodies such as OFFA and schemes like AimHigher serve no real purpose.[119] Abolition of these two bodies would save £65.5 million.[120]
- *Abolish the National College for School Leadership (NCSL).* NCSL is a body that aims to improve the standards of head teachers, but has had limited impact in achieving its original goals.[121] Combined with our suggestions to give schools more freedom by scaling-back the LEAs, good head teachers will flourish and a quango specialising in 'leadership development' will not be needed, saving £83 million.[122]
- *Abolish the British Educational Communications and Technology Agency (BECTA).* BECTA oversees IT procurement and technology strategy for schools in England and Wales. This has had negative consequences for many schools, precluding them from organising IT facilities and programmes as they see necessary. It hinders an open and competitive market, and if

[116] 2 July 2009 http://www.lgcplus.com/policy-and-politics/latest-policy-and-politics-news/cable-slams-star-rating-assessments/5003564.article,
[117] Audit Commission, *Annual Report and Accounts 2008-09*
[118] Standards Board for England, *Annual Report and Accounts 2008-09*
[119] Reform, op. cit.
[120] AimHigher, *Guidance for AimHigher Partnerships*, Department for Innovation, Universities and Skills, 2008; Office for Fair Access, *Annual Report and Accounts 2008-09*
[121] Reform, op. cit.
[122] Department for Children, Schools and Families, *Departmental Report 2009,* p.19. Planned spend for 2010-11

schools were to be allocated money directly, the sensible option would be to let them purchase the equipment that they required according to their needs. Abolishing BECTA would realise a saving of £11 million.[123]

- *Abolish the School Food Trust.* The School Food Trust aims to promote the benefits of healthy eating in schools. Not only is this an area already served by programmes run by the Food Standards Agency and charity organisations, if schools were freed to control their own budgets, and were held accountable by parents rather than government departments, then bodies such as this would not be necessary, and £6 million would be saved.[124]

- *Devolve responsibility for funding S4C (Welsh Channel 4).* S4C was established in 1982 to provide a dedicated platform for Welsh language television, commissioning programmes from the BBC and independent producers. Funded by a grant-in-aid from the Department for Culture, Media and Sport (like its English and Scottish counterpart Channel 4), S4C was subsidised by all UK taxpayers to the tune of £98.4 million in 2007-08.[125] But with many cultural responsibilities (including the preservation of the Welsh language) devolved to the Welsh Assembly, funding of S4C should now also fall to the Cardiff Government. We are not suggesting that funding for S4C be abolished, rather that it should be funded out of the Welsh Assembly's existing budget.

- *Bring the Football Licensing Authority (FLA) to a close.* The FLA was set up in the wake of the Heysel and Hillsborough Stadium disasters. Monitoring local authorities' oversight of football spectator safety, driving the move to all-seater stadia and advising on disabled access requirements, the FLA has successfully delivered on the recommendations of the Taylor report.[126] The FLA has now served its purpose. The need for the highest standards of stadium construction remains, as do those of inspection and accreditation, but structures are now in place to ensure these continue. Stadium regulation is the responsibility of local authorities. Legislation now mandates access and facilities for disabled supporters. Now that it has achieved what it was set up to do, the FLA should be dissolved, saving £1.2 million.[127]

- *Abolish the Commission for Architecture and the Built Environment (CABE).* CABE offers advice and review during the design process for public buildings and spaces, "supporting public agencies in boosting their in-house design expertise". Although good design is important, in such straitened times a quango to ensure it is hardly a priority. Urban planners and architects employed by local authorities must ensure best practice, in terms of design, safety and affordability, but ultimately it is the local constituents of an area who should decide what is good and bad design, in the context of their needs. Removing CABE from the process would save £11.4 million.[128]

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[123] Reform, op. cit.
[124] Department for Children, Schools and Families, *Departmental Report 2009.* Planned spend for 2010-11
[125] Department for Culture, Media and Sport, *Departmental Annual Report & Resource Accounts 2008-09*, July 2009, p.131
[126] Football Licensing Authority, *Annual Report and Accounts 2009*, July 2009
[127] Ibid.
[128] Commission for Architecture and the Built Environment, *Corporate Strategy 2008-09 – 2010-11,* January 2009. Projected funding for 2010-11

- *Abolish the remaining Local Development Corporations (Thurrock Thames Gateway; West Northamptonshire; London Thames Gateway).* The local development corporations were created to regenerate specific areas of the country identified as sites of (possible) significant population growth. However, local government also has a duty of regeneration and investment, both to public areas and housing, and there is therefore no need for an additional layer of development corporations to regenerate areas. Abolishing these bodies would save around £103.6 million a year, and strip out some of the unnecessary bureaucracy that embodies regeneration.[129]

- *Privatise British Waterways.* British Waterways received £74.3 million in grant funding from DEFRA and the Scottish Executive in 2008-09.[130] The organisation delivers a legitimate objective: "maintain our existing historic waterway network in a safe and attractive way for the millions of visitors who use the towpaths and the water, now and long into the future". But the case that it requires grant funding is weak. British Waterways manages an enormously valuable asset (the canal network, river network, and much waterside land). Income from the rental or sale of land should be sufficient to subsidise waterway maintenance. Indeed the organisation already receives £149 million a year in income from other sources, including £45.2 million in the form of property rents and £15.1 million in boating license fees.[131] British Waterways should be reconstituted as an independent charity, without government funding. While there may be a short term fall in turnover, taking greater advantage of commercial opportunities, while appealing for charitable support for specific 'not-for-profit' projects, should be sufficient for a viable organisation to be maintained. Moreover, British Waterways' 2007-08 business plan assumed maintenance expenditure would be 85 per cent of the amount needed to maintain its principal assets at a steady state, and that required just over £70 million – suggesting that the network could be maintained in a reasonable state simply with the company's current commercial income.[132]

- *Abolish the Sustainable Development Commission (SDC).* The SDC is a Government sponsored campaign for an increase in green and environmentally aware policy. It is not an expert advisor but a political campaign, and whatever its merits may be, such campaigns should not be paid for through public funds. In 2007-08 (latest year available) the SDC received £4.1 million from various public sector bodies (mostly DEFRA).[133] This, along with other taxpayer funding of political campaigns, should be brought to an end.

- *Abolish 11 Million, the Office of the Children's Commissioner.* 11 Million is the Office of the Children's Commissioner for England. It exists to give children across the country a voice, although it is a body that does not formulate or

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[129] Thurrock Thames Gateway Development Corporation, *Annual Report and Accounts 2008-09*; West Northamptonshire Development Council, *Annual Report and Accounts 2008-09*; London Thames Gateway Development Council, *Annual Report and Accounts 2008-09*
[130] British Waterways, *Annual Report and Accounts 2008-09* http://www.britishwaterways.co.uk/media/documents/BW_Annual_report_and_accounts_2008_09.pdf
[131] Ibid.
[132] Comptroller and Auditor General letter to Rt. Hon. Michael Jack MP, 5 December 2007
[133] Sustainable Development Commission, *Annual Review 2007-08* http://www.sd-commission.org.uk/publications/downloads/2007-08Annual_Review.pdf

implement policy. As a body it has no authority, and there are a vast number of schemes devised and paid for by local authorities that are created to empower young people and involve them in community projects. Schools should also be entrusted to do work in this area. Although the saving gained from abolishing 11 Million is relatively small – £3 million[134] – it is important to consider all of the bodies that sit in the middle of processes, and do not deliver policy on the frontline.

- *Remove government grant-in-aid for NHS Professionals.* NHS Professionals is the main provider of temporary staff to the NHS. It makes a considerable income – almost £288 million in 2008-09 – from the NHS for the service that it provides. A body that operates with such a large operating turnover should not be additionally propped up by the taxpayer. The body runs at a deficit[135] (albeit decreasing) but it should be pushed to turn this around through its business activity – cutting its costs and becoming more efficient. The saving from removing the government grant-in-aid would be £9 million.[136]

[134] 11 Million, *Corporate Strategy 2009-12*
[135] NHS Professionals, *Annual Report and Accounts 2008-09*
[136] Ibid.

2.4 Tackling specific budgets

As far as possible, this report has concentrated on reducing or eliminating specific items of government consumption expenditure, with a few unsuccessful capital projects also included.

But in addition, there are a number of departments where we feel it is most appropriate to impose a budget freeze or a reduction. This is a more general approach than we would like, but it is not always possible to identify specific projects that should be cut or frozen. In most cases, the examples we suggest speak for themselves.

There are omissions from this section that may seem surprising, for example, the Department for the Environment, Food and Rural Affairs. But this department will already experience a slight budget cut in 2010-11 relative to 2009-10, and so we have not added to it.

Item 18

Cut 25 per cent from the budget of the Department for Culture, Media and Sport (DCMS).

Annual Saving

£725 million from 2010-11 onwards.[137]

The 2009-10 departmental expenditure limit (DEL), for current and capital spending combined, for the DCMS is £2.1 billion. A 25 per cent reduction in 2010-11 would leave the total DEL at £1.575 billion. This would realise a saving of £725 million relative to the planned DEL in 2010-11 of £2.3 billion.

Rationale

The DCMS must not remain immune from the necessary reductions in public spending, and it is clearly not as important an area as hospitals and schools. The 25 per cent cut we suggest will still leave the bulk of the department's programmes intact.

This reduction would not affect spending on the 2012 Olympics. In 2008-09, the Olympic Delivery Authority was funded by a grant-in-aid of £958 million from the DCMS, but much of this was paid for by the Department for Communities and Local Government and the Department of Transport.[138] In 2008-09, the DCMS spent a net £557 million on its Departmental Strategic Objective of "Olympics and sport for young people".[139] The suggested reduction in the DCMS budget to £1.575 billion would therefore leave ample funds to cover Olympic spending.

[137] HM Treasury, *Budget 2009,* Table C11
[138] Department for Culture, Media and Sport, *Annual Report and Accounts 2009,* p.82
[139] Ibid. p.113

Item 19

One year freeze of the resource and capital budgets of the Department for International Development.

Annual saving

£862 million from 2010-11 onwards.

Planned spending by the Department for International Development (DfID) for 2010-11 is £7.8 billion. Freezing both the resource and capital departmental expenditure limits at the 2009-10 level (£6.9 billion) will realise a saving of £862 million.[140]

Rationale

Despite the alarming fiscal deterioration, both the current Government and the Opposition have committed themselves to increasing the international development budget over coming years. A target to spend 0.7 per cent of GDP by 2013 has been set,[141] which – if IMF forecasts prove correct – would equate to at least £10 billion in annual spending.[142]

The UN's target of 0.7 per cent of GDP, however, is not only arbitrary, it is also careless. At 0.5 per cent of UK GDP, the £6.5 billion that will be spent by DfID this year will ensure the UK remains one of the most generous countries in the developed world. In addition, the practical application of this expenditure is not uncontroversial, as too much continues to be lost in inter-government transfers and too little achieved by charitable ventures. This is not to say that all DfID spending is wasted, but until the efficiency and effectiveness of UK aid can be improved, the level of spending should not be increased. The poor in the developing world and taxpayers in the UK deserve to see more return from the UK's investment.

Item 20

One year freeze of the Home Office resource and capital budgets.

Annual Saving

£360 million from 2010-11 onwards.[143]

This figure represents the saving from freezing the Home Office budget at its 2009-10 level relative to the current 2010-11 plans.

Rationale

Any suggestion to make cuts or freezes in the Home Office budget tends to provoke accusations of 'less police on the beat' or 'weakening the fight against terrorism'. This does not need to be the case. There are more than 140,500

[140] Department for International Development, *Annual Report and Resource Accounts 2008-09*, July 2009, p.5; HM Treasury, *Budget 2009*, Table C11

[141] Department for International Development, *Statistics on International Development 2008*, November 2008, p.15

[142] International Monetary Fund, *World Economic Outlook Database*; UK GDP (constant prices, £) projected

[143] Home Office, *Departmental Report 2009,* June 2009, Table 5.1

police officers across the country.[144] If the time spent on paperwork by these officers could be cut in half, then 10 per cent of police time could be saved; equivalent to 14,050 more officers on the beat.[145]

Neighboring force collaboration – described elsewhere in this paper – could yield significant efficiency savings, perhaps most directly in the administrative area (forces sharing resources). Implementing local strategies to tackle crime will also reduce the need for central prescription.

The terrorist threat to the UK is real and deserves a robust response. A significant amount of work is being done to achieve this by intelligence services and the police. The Home Office has already planned to cut the budget line 'Protect the Public from Terrorism' by £18 million in 2010-11,[146] so the suggestion here will not limit police forces further than existing plans.

Item 21

One year freeze of the grants from the Department for Communities and Local Government to local and regional governments.

Annual saving

£687 million from 2010-11 onwards.

This figure is based on freezing current and capital grants from the Department for Communities and Local Government (DCLG) to local and regional government at their 2009-10 level for one year, relative to the DCLG's planned level of grants for 2010-11.[147]

Rationale

Roughly three quarters of Local Government funding comes from central taxation.[148] Annual grants from the DCLG enable local authorities to provide services and perform many regulatory duties on behalf of central government which would be unaffordable if locally levied taxation was relied on alone.

But many councils have developed an unsustainable profligacy in recent years. Encouraged (often literally) by central government's over-activity, local authorities are now increasingly over-stretched, involved in unnecessary programmes or committed to budget items that have little benefit for local communities.

The recession has already put pressure on council budgets, with falling income and rising demand. But freezing central government funding for local authorities at 2009-10 levels for one year will help focus minds across town halls further. Moreover, this freeze would mean an average drop in planned income for councils of just £1.6 million.[149] With the average council spending nearly £1

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[144] Home Office, *About the Police* http://www.homeoffice.gov.uk/police/about/?view=Standard
[145] Matthew Sinclair and Corin Taylor, *The Cost of Crime*, The TaxPayers' Alliance, July 2008
[146] Home Office, *Departmental Report 2009,* June 1009, Table 5.1
[147] Department for Communities and Local Government, *Annual Report 2009,* Annex C, Table 1
[148] Office of the Deputy Prime Minister, *Balance of Funding Review*, July 2004, p.6
[149] The total number of local authorities in the UK, at August 2009, was 434

million on publicity and advertising alone in 2007-08,[150] areas of expenditure clearly exist in local authority budgets where savings can be found.

Councillors and council officials must now make tough spending decisions. However, experience suggests that councils often look to find savings in high expenditure areas (waste collection, help for the elderly) which are deemed a priority by their community. Areas such as council publicity spending and self-promoting community projects are left untouched. It is these areas in which many local authorities can and should find the necessary savings.

Item 22

Cut 10 per cent from the budgets of non-ministerial departments, except for UK Trade and Investment and the UK Statistics Authority.

Annual Saving

£1,700 million from 2010-11 onwards.[151]

By reducing the parliamentary voted funds of all non-ministerial departments (apart from UKTI and the UK Statistics Authority) by 10 per cent from their 2008-09 level, a saving of £1,700 million could be accrued.

Rationale

Non-ministerial departments (NMDs) are a ubiquitous – if little understood – feature of the UK Government. Operating under the political shadow of a ministerial department (but structurally and financially independent of them) these mega-agencies are responsible for a wide range of government functions, from tax collection (HMRC) to charity regulation (Charity Commission).

Most NMDs carry out crucial work, and many do so well. However the state of the public finances demands some painful choices. As such, expenditure within the NMDs must be pared back by 10 per cent. Budgets for communications and advertising are obvious starting points.

While a lot of NMDs do important work, some do not. For example, the National School for Government and the Food Standards Agency are two NMDs that must be subject to tighter budgets.

However the recession necessitates a different approach with UK Trade and Investment (UKTI). It is vital that as much foreign direct investment as possible is encouraged into the UK, to boost trade and create jobs. UKTI plays a crucial role in attracting this investment, and hence it should be protected from cuts. Similarly we do not wish to see the quality of official statistics undermined.

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[150] The TaxPayers' Alliance, *Council Spending Uncovered II: No.1: Publicity*, December 2008

[151] Annual Report and Resource Accounts 2008-09 for the following non-ministerial departments: Charity Commission; Crown Estate; Crown Prosecution Service; Food Standard Agency; Forestry Commission; Government Actuary's Department; HMRC; National School of Government; Ofsted; Office of Fair Trading; Ofgem; Office of Rail Regulation; Office of Water Services; Postal Services Commission; Revenue and Customs Prosecution Office; Serious Fraud Office

Item 23

One year freeze of the grants given to Scotland, Northern Ireland and Wales (current spending only).

Annual saving

£1,400 million from 2010-11 onwards.[152]

This figure is the saving from freezing the Treasury current DEL grants to Scotland, Wales and the Northern Ireland Executive at their 2009-10 level for one year, relative to the Treasury's current plans for 2010-11. Capital grants are unaffected by this suggestion.

Rationale

We have purposely targeted savings and reductions across the whole of Government so as to obtain as balanced a range of savings as possible. Many of the items in this report cover England only, and so it seems fair for the other nations of the UK to take their share of the burden. Freezing the current grants to Scotland, Wales and Northern Ireland for one year offers a substantial saving, and also means that no services are necessarily subject to cuts. Instead, budgets received will have to be handled more carefully, with any unnecessary spending eradicated.

Considering the differing levels of spending autonomy enjoyed by the devolved assemblies, a general freeze will allow each nation to make its own decision over what is priority and what is not. In practice, if spending in England is scaled back, whether through the suggestions in this report or other items, a level of saving of this order of magnitude would happen automatically, given the methodology of the Barnett Formula.

Item 24

Simplify and rationalise the skills system and the plethora of skills programmes.

Annual saving

£757 million from 2010-11 onwards.

This figure represents 25 per cent of the 2008-09 (latest year available) cost of the current adult skills system of £3,028 million.[153] This does not include 16-18 learning, higher education or prisoner rehabilitation. It *does* include the following (rounded to the nearest £1 million):

Young people apprenticeships – £799 million
Other adult responsive – £189 million
Adult apprenticeships – £347 million
Train to Gain – £876 million
Adult safeguarded learning – £214 million
Learner Support 19+ – £165 million

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[152] HM Treasury, *Budget 2009*, Table C11
[153] Learning and Skills Council, *Annual Report and Accounts 2008-09*; UK Commission for Employment and Skills, *Annual Report and Accounts 2008-09*; Investors in People, *Annual Report and Accounts 2008-09*

Adult Skills reform – £80 million
Quality reform – £84 million
LSC admin costs – £200 million
UK Commission for Employment and Skills funding (including the 25 Sector Skills Councils) – £79 million
Investors in People funding – £6 million

Rationale

The current skills system is addressing a vital weakness that afflicts the UK, but it is over-complex and not delivering effectively. A recent IoD survey of the English skills system confirmed that it remains a labyrinthine experience for most employers:[154]

- 64 per cent of the 937 directors polled agreed that "the publicly funded training and skills system is too complex and difficult for employers to engage with", with 67 per cent of small business owners agreeing.
- 40 per cent thought that overly-bureaucratic and inflexible programmes were the biggest problem, while 28 per cent cited a constant change in initiatives as their biggest concern.
- Levels of frustration and dissatisfaction ran so high in the survey that some directors called for the entire edifice to be swept away and for the Government to incentivise training by leaving resources in the hands of employers through tax reductions.

There are only three key groups in this area – employers, learners and training providers (who may often be the employers). But dozens of agencies, programmes and initiatives, many of them constantly changing, clog up the system and prevent genuine improvement from taking place. Less churn and more stability in programmes as well as in organisations is vital.

A radical simplification is needed to make the picture clearer and more straightforward for employers and learners. There need to be fewer programmes, fewer agencies and fewer employer-facing skills "brands" (e.g. Train to Gain, Apprenticeships, Talentmap, Skills Pledge, Backing Young Britain etc). We estimate that a rationalised system could deliver savings in the order of 25 per cent of the current cost.

A streamlined system would offer the benefit of more efficient and effective performance, but it would also be extremely important to safeguard against the gradual subsequent accretion of new bodies in the future. We are pleased to see that the Government is moving in the direction of simplification and reform, and we hope that this will result in a genuine reduction of bureaucracy.

[154] Institute of Directors, *Training in the recession: winner or loser?,* June 2009

2.5 Tackling above-inflation indexing

Automatic indexing of pensions and benefits is in many respects a sensible principle. It protects recipients against high inflation and helps to remove the temptation for governments to create inflation to reduce debt levels. But indexing above inflation is a luxury that cannot now be afforded.

Item 25

One year freeze of the Basic State Pension and the Minimum Income Guarantee.

Annual saving

£1,441 million from 2010-11 onwards.

The Basic State Pension is uprated each April by the higher of the previous September's RPI or 2.5 per cent.[155] Barring a severe inflationary shock, RPI inflation this September will be less than 2.5 per cent, in which case the Basic State Pension will rise by 2.5 per cent in April 2010. The calculation is therefore based on the projected 2010-11 level of spending on the Basic State Pension in Great Britain of £56,190 million,[156] and the 2008 level of spending in Northern Ireland (latest year available) of £1,455 million,[157] being reduced by 2.5 per cent.

The Minimum Income Guarantee (MIG) increases in line with average earnings.[158] Average earnings across the economy are now recovering to 2.5 per cent, both including and excluding bonuses,[159] so a 2.5 per cent increase in the MIG next April is a reasonable assumption to make. We have been cautious and included no extra saving from freezing the MIG next year. This is because if the Basic State Pension was frozen but MIG increased, some of the Basic State Pension savings would merely be spent on the MIG instead.

Rationale

RPI inflation is currently running at -1.4 per cent,[160] and is expected to remain negative in September, the month used for pension uprating. A one-year freeze in pension levels will therefore not make any pensioners worse off in real terms. In fact, with inflation negative, pensioners will still be better off in real terms next year. Our suggestion does not harm pensioners, but means they will benefit from deflation by less than currently envisaged.

There is a wider question about reforms to the retirement system in the context of a rapidly ageing population. The IoD will be publishing a major study on retirement reform in October 2009, but a later retirement age, an end to means-testing and the perverse incentives associated with it, and a much higher basic state pension are reforms that would improve the prospects for future generations

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[155] House of Commons Library, *2009 Benefit Uprating,* 11 December 2008 http://www.parliament.uk/commons/lib/research/briefings/snsg-04901.pdf

[156] Department for Work and Pensions, *Benefit Expenditure Tables*, Spring 2009, Table 4. NB: expressed in 2010-11 prices

[157] Department for Social Development Northern Ireland, *Northern Ireland Social Security Statistics Bulletin*, May 2009

[158] House of Commons Library, op. cit.

[159] Office for National Statistics, *Labour Market Statistics,* August 2009, Tables 15 and 16. NB: 3-month average

[160] Office for National Statistics, *Consumer Price Indices,* July 2009, 18 August 2009

of pensioners and save the Exchequer money in the longer-term. The fact that they will save little in the first year is the only reason why they have not been included in this report.

2.6 Restraining public sector pay and perks

We do not aim to attack those who work in the public sector, but the generosity of many employment contracts, relative to those in the private sector, does need to be addressed. The average public sector employee is now significantly better off than their private sector equivalent. We have therefore suggested two areas to focus on – a general pay freeze and an increase in employee contributions to the unfunded pension schemes. Longer-term, a move to decentralised pay bargaining, with a greater link to performance, would help to improve the efficiency of the public sector labour market, but for now, across-the-board measures are unavoidable.

Item 26

One year pay freeze across the public sector, excluding members of the armed forces serving in conflict zones.

Annual saving

£6,203 million from 2010-11 onwards.

The pay freeze would run in 2010-11, and would then affect the baseline for future years. The calculation is based on the 2008-09 (the latest year available) level of spending on public sector pay of £157,695 million[161] being frozen for one year rather than increasing at an annual rate of 4 per cent, which is the current rate of increase.[162] This would, in practice, mean that public sector employees would not move up pay bands during the year, in addition to not receiving any pay increases within their existing band.

To avoid double-counting, this figure has been reduced by 1.66 per cent to take account of the reductions in back-office staff that we suggest (see section 2.3).[163] The exemption in the pay freeze for members of the armed forces serving in or returning from conflict zones, such as Afghanistan, is morally the right thing to do, and will have a negligible effect on the overall saving.

Rationale

Since 2000, median gross hourly pay has increased by 40 per cent in the public sector, compared with 31 per cent in the private sector. Median gross hourly pay is now 25 per cent higher in the public sector. The public sector has now overtaken the private sector in the pay stakes for the vast majority of jobs – gross hourly pay is higher in the public sector for all but the top 10 per cent of employees.[164] Gross annual pay tells a similar story – median gross annual pay

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[161] HM Treasury, *Public Expenditure Statistical Analyses 2009,* Table 5.3

[162] Office for National Statistics, *Labour Market Statistics,* August 2009, Table 15. This refers to average earnings, including bonuses, in the public sector, which in June 2009 (latest month available) were 4.0 per cent higher than in June 2008

[163] The 10 per cent headcount reduction in the civil service and in non-frontline staff in health and education, and the staff reductions as a result of the quangos we propose to abolish, totals a headcount reduction of roughly 100,000 in the public sector, which represents 1.66 per cent of the 6,020,000 public sector employees

[164] Office for National Statistics, *Annual Survey of Hours and Earnings,* 2000 and 2008, Table 13.5a (all employee jobs)

has increased by 37 per cent in the public sector since 2000, compared with 31 per cent in the private sector.[165]

Employees in the private sector have also been harder hit by the recession. Private sector employment has fallen by almost 700,000 over the past year, while there has been a 40 per cent increase in the number of part-time workers who cannot find a full-time job.[166] Pay cuts and 4-day weeks are now common features. In the public sector, by contrast, employment has increased by almost 300,000 over the past year, and pay is now increasing at an annual rate of 4 per cent.[167]

A recent survey of IoD members also found that business executives across the country are cutting back, with around half experiencing pay freezes or pay holidays, and 40 per cent seeing their bonuses fall.[168]

A public sector pay freeze has been suggested by, among others, the Chief Executive of the National Audit Office, who wrote that "as public sector workers have done well over the past decade, they will tolerate some modest real reduction in earnings".[169] We should not pretend that this will be without some pain. But generosity over recent years must now be balanced by wage restraint. The far more painful alternative would be widespread public sector job losses in the future, as the structural deficit (or the IMF) would force us to make harder choices.

Item 27

Increase employee contributions to all unfunded public sector pension schemes by a third.

Annual saving

£2,508 million from 2010-11 onwards.

This calculation is based on a 33 per cent increase to the 2007 (latest year available) level of employee contributions to unfunded pension schemes (all the major public sector pension schemes, except for the Local Government Pension Scheme).[170] The £2.5 billion in extra employee contributions would go towards reducing the "contribution to TME" of unfunded public sector pensions, which is projected to be £4.6 billion in 2010-11.[171]

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[165] Office for National Statistics, *Annual Survey of Hours and Earnings,* 2000 and 2008, Table 13.7a (all employee jobs)

[166] Office for National Statistics, *Labour Market Statistics,* August 2009, Tables 1a and 3

[167] Office for National Statistics, *Labour Market Statistics,* August 2009, Tables 1a and 15

[168] IoD *Policy Voice* survey of 1,316 IoD members conducted in August 2009

[169] Steve Bundred, op. cit.

[170] Office for National Statistics, *Private pension contributions: updated estimates 1995-2007*, Table 3. Note that the ONS's title is slightly misleading, in that there are virtually no unfunded pension schemes in the private sector

[171] HM Treasury, *Public Expenditure Statistical Analyses 2009,* Table D.1. Frustratingly the Treasury does not provide a breakdown of employer and employee contributions, merely providing a single figure which is the sum of both. Hence the slightly more out-of-date ONS figure for employee contributions has been used. We deplore this lack of transparency

Rationale

An increase in employee pension contributions of a third is not as large an increase as it sounds – it would raise the typical employee contribution rate from 6 per cent to 8 per cent of salary. It is no substitute for long-term reforms to public sector pensions, such as raising the public sector normal pension age to the level of the state pension age for all new accrual, but has the advantage of yielding the full saving in the first year, rather than after several decades.

The pensions divide between the public and private sectors has been much discussed. In brief, the main points are as follows:[172]

- In the context of a rapidly ageing population, pension reforms will be unavoidable. In the private sector, a combination of demographic pressures, tax increases and more onerous regulation has led to a 41 per cent fall in the active membership of defined benefit (DB) schemes. At the same time, the state pension age will increase to 68 by 2046. By contrast, existing scheme members in the unfunded public sector schemes will still retire at 60.
- 90 per cent of public sector employees are members of DB pensions, compared with just 12 per cent in the private sector. According to a recent survey of 1,000 IoD members, only 12 per cent of company directors are enrolled in an occupational DB pension, the same proportion as for the private sector as whole, while 45 per cent have no occupational or employer-sponsored pension at all.
- Excluding member contributions, a public sector pension for a typical employee is worth over 40 per cent of salary, compared with just 7 per cent for a typical private sector defined contribution (DC) scheme. The Institute for Fiscal Studies has calculated that relatively generous pensions add around 12 per cent to the salary of public sector employees, over and above private sector employees
- Unfunded public sector pension liabilities are now as much as £1.1 trillion, while the IoD has estimated that the total bailout of public sector pensions (in addition to the already high employer contributions) could reach £335 billion, over £13,000 per household, over the next 50 years.
- Given that public sector pay is now higher than in the private sector for all but those at the very top, there is no longer any justification for people to pay, through taxes, for pensions they can no longer afford for themselves. It is fair for public sector employees to contribute more towards the very high cost of their pensions.

[172] See, for example: Corin Taylor, *The Pensions Apartheid: The problem, the cost and the tough choices that need to be made,* Institute of Directors, January 2009 http://www.iod.com/intershoproot/eCS/Store/en/pdfs/policy_paper_Pensions_Apartheid_report.pdf; Neil Record, *Public Sector Pensions: The UK's Second National Debt,* Policy Exchange, 2009 http://www.policyexchange.org.uk/images/publications/pdfs/Public_Pensions_Final_Jun_09.pdf

2.7 Cutting middle-class welfare

There is widespread agreement that the current welfare system is expensive, disincentivises work and traps some of the poorest in our society in a cycle of dependency. There are enormous potential gains from serious reforms.

Part of the answer is to make greater use of organisations that have a proven track record in finding people work and pay them by results. This was proposed by the Centre for Social Justice in 2007[173] and has to a limited extent been adopted by the Government through the Flexible New Deal. The other part is radically to simplify the benefits system, ideally to just one or two benefits, increase conditionality and ensure that claimants are genuinely better off in work.

Put together, these reforms are likely to have incredibly powerful effects, increasing the number of low-skilled people in work and reducing the cost of dependency. But unless those out of work are to be made worse off, benefits will have to be withdrawn more slowly than today to make work more attractive. This means that comprehensive reform to the structure of the benefits system is unlikely to save money in the first year or two, and may even cost more initially. This is even more likely to be true when unemployment is at such a high level.

In the very short term, as the think tank Reform has also found, there is little alternative to reducing the luxury items of the UK's current benefits system. So we have focused on removing items that are paid to richer households, with some extra assistance to ensure that the effects are not felt by those who are most vulnerable.

Item 28

Abolish Child Benefit and the Child Trust Fund, and increase the Child Element of the Child Tax Credit to address child poverty concerns.

Annual saving

£8,447 million from 2010-11 onwards.

This saving from abolishing Child Benefit and the Child Trust Fund is HMRC's projection of the resource and capital costs of Child Benefit and Child Trust Fund payments in 2010-11, which total £12,447 million.[174]

The extra spending on increasing the Child Element of the Child Tax Credit, which reduces the saving from this suggestion by £4,000 million, is a calculation by the Institute for Fiscal Studies (IFS) of the costs in 2008-09 of increasing considerably the Child Element of the Child Tax Credit to reduce child poverty by around 600,000.[175] In 2010-11, the cost would be correspondingly higher, but in the absence of a precise estimate for 2010-11 we have taken the 2008-09 figure. Considering that we also took the IFS's 2008-09 estimate for the savings from tapering the Family Element of the Child Tax Credit (see next item), we have not

[173] Centre for Social Justice, *Breakthrough Britain: Economic Dependency and Worklessness,* July 2007
[174] HM Revenue and Customs, *Departmental Report 2009,* Annex D, Tables 2 and 3
[175] Mike Brewer, James Browne and David Phillips, *Options for Tax Credit Reform,* Institute for Fiscal Studies, July 2008

been under-cautious overall. The think tank Reform has also costed a very similar proposal.[176]

Rationale

Both Child Benefit and the Child Trust Fund are available to all households with children, no matter how well off. While the administration of Child Benefit is simple and inexpensive, as there is no means-test, paying benefits to millionaires, or even to households with income of £50,000 a year, is a luxury we cannot afford. They should both be abolished.

When abolishing a universal benefit, however, it is important that lower-income households are not unduly affected. Hence we reluctantly support this extension of means-testing in the short-term, which reduces the saving from abolishing Child Benefit by £4 billion. This is a necessarily short-term suggestion, and does not lessen the urgency of more comprehensive welfare reform.

Item 29

Taper away the Family Element of the Child Tax Credit at 39 per cent immediately upon exhaustion of the Child Element of the Child Tax Credit.

Annual saving

£1,350 million from 2010-11 onwards.

This figure is a calculation made by the Institute for Fiscal Studies of the savings in 2008-09 from such a policy.[177] In 2010-11, the savings would be correspondingly higher, but in the absence of a precise estimate for 2010-11 we have taken the 2008-09 figure as a cautious estimate.

Rationale

The main element of the Child Tax Credit is the Child Element, which is tapered away at 39 per cent once household income reaches £6,420 a year, or £16,040 for those only entitled to Child Tax Credit. But the Family Element, which includes a "Baby Addition" if the child is under 12 months, is tapered away at 6.67 per cent once household income reaches £50,000.[178]

This is a completely senseless system, wasting £1.35 billion a year on households that do not need to receive state benefits and adding an unnecessary layer of complexity. Tapering the Family Element once the Child Element has been exhausted would have no impact at all on lower-income households.

[176] Reform, op. cit.
[177] Ibid.
[178] HM Treasury, *Budget 2009,* Table A7

Item 30

Target spending on free bus passes for the elderly and disabled on those who genuinely need it.

Annual saving

£438 million from 2010-11 onwards.

We estimate that targeting spending on free bus passes on those who need it could save in the order of 50 per cent of the current cost. The net cost of the scheme in 2007-08 (latest year available) in England was £876 million.[179] Our saving is therefore a cautious estimate given that spending on free bus passes is likely to have increased since then.

Rationale

While the aim of ensuring that pensioners and the disabled are able to get around is laudable, the free bus passes scheme is poorly targeted, as it is available regardless of income. As a recent study by Oxera, the economics consultancy, concluded: *"Despite the evidence of significant use of the concessionary fares scheme, concerns have been raised about whether it represents value for money. Although the scheme has helped to improve social inclusion, there is also evidence that the scheme is targeted too widely, benefiting many people on higher incomes and with access to cars."*[180]

Oxera also found that, combined with the Bus Service Operators' Grant (BSOG, see section 2.1), the free bus passes scheme may provide bus operators with an incentive to increase non-concessionary fares – indeed, bus fares have increased by over 50 per cent in the past decade.[181]

Although there are associated administrative complications, the free bus passes scheme should be targeted on those who genuinely need it. While the saving would partly accrue to local authorities, it should be accompanied by a commensurate reduction in grants from central government.

Item 31

Abolish free TV licences.

Annual saving

£564 million from 2010-11 onwards.

This figure is the DWP's projection of spending on free TV licences in 2010-11.[182]

Rationale

Free TV licences are available to all households, no matter how well off. A universal benefit covering an item of expenditure that, unlike food and heating, is not essential, cannot now be afforded.

[179] Department for Transport, *Annual Report and Resource Accounts 2008-09*, Figure 3d
[180] Oxera, *Securing best value and outcomes for taxpayer subsidy of bus services,* June 2009
[181] Ibid.
[182] Department for Work and Pensions, *Benefit Expenditure Tables*, Spring 2009, Table 4. NB: expressed in 2010-11 prices

As stated in section 2.5, there is a wider question about reforms to the retirement system in the context of a rapidly ageing population. The IoD will be publishing a major study on retirement reform in October 2009, and the fact that major reforms will save little in the first year is the only reason why they have not been included in this report.

Item 32

Abolish interest subsidy to student loans.

Annual saving

£1,200 million from 2010-11 onwards.

This figure was provided by the think tank Reform, who also proposed this measure.[183]

Rationale

Interest on student loans is currently charged at the rate of inflation, which means that loans are effectively interest-free in real terms. Charging market interest rates would end a subsidy that primarily benefits the better-off, as students from low-income families are far less likely to go to university. The £15,000 annual earnings threshold, below which no loan repayments are necessary, would be maintained, as would the current policy of writing off loans if they have not been fully repaid after 25-years.

[183] Reform, op. cit.

2.8 Further emergency possibilities after 2010

It is impossible to say with certainty how bad the fiscal position will be. In chapter 1, we showed how, if economic growth does not recover to the levels projected by the Government, the deficit will be even worse than currently forecast.

We would hope that the suggested annual savings from 2010-11 onwards, detailed in the earlier sections of this chapter, are sufficient to restore the public finances to better health, but there is no certainty of this. Hence we have concluded that, in the emergency scenario of a sharply deteriorating fiscal position, further decisions may need to be contemplated.

The following items are not specific suggestions we are making at this stage, but they may need to be seriously considered in an emergency. We hope that things do not get to that stage, but it is best to be prepared.

Item 33

A further one year pay freeze across the public sector, excluding members of the armed forces serving in conflict zones.

Annual saving

£6,203 million from 2011-12 onwards.

The further one year pay freeze would run in 2011-12, and would then affect the baseline for future years. The calculation is based on the 2008-09 (the latest year available) level of spending on public sector pay of £157,695 million[184] being frozen for one further year (i.e. in addition to being frozen in 2010-11) rather than increasing at an annual rate of 4 per cent, which is the current rate of increase.[185] This would, in practice, mean that public sector employees would not move up pay bands during the year, in addition to not receiving any pay increases within their existing band.

To avoid double-counting, this figure has been reduced by 1.66 per cent to take account of the reductions in back-office staff that we suggest (see section 2.3).[186] The exemption in the pay freeze for members of the armed forces serving in or returning from conflict zones, such as Afghanistan, is morally the right thing to do, and will have a negligible effect on the overall saving.

Rationale

In section 2.6, we gave the rationale for a one year pay freeze across the public sector, and will not repeat it here. We do not wish a second year of pay freezes upon anyone. However, many businesses that have frozen pay for one year may find it necessary to extend the pay freeze, and in an emergency it may also be

[184] HM Treasury, *Public Expenditure Statistical Analyses 2009,* Table 5.3
[185] Office for National Statistics, *Labour Market Statistics,* August 2009, Table 15. This refers to average earnings, including bonuses, in the public sector, which in June 2009 (latest month available) were 4.0 per cent higher than in June 2008
[186] The 10 per cent headcount reduction in the civil service and in non-frontline staff in health and education, and the staff reductions as a result of the quangos we propose to abolish, totals a headcount reduction of roughly 100,000 in the public sector, which represents 1.66 per cent of the 6,020,000 public sector employees

necessary to extend the pay freeze in the public sector. Far more painful would be widespread job losses, which may be the only other alternative.

Item 34

Reduce gross annual pay by 5 per cent for the richest 10 per cent in the public sector.

Annual saving

£1,218 million from 2011-12 onwards.

Median gross annual pay for the 90th percentile in the public sector is £41,172,[187] of which a 5 per cent cut equals £2,059, which is then multiplied by 10 per cent of the public sector workforce, comprising 602,000 employees.[188] This figure is clearly an underestimate of the saving that would be realised, but as individual percentile earnings are not available, it is prudent to take a cautious approach. Adjustments would need to be made to ensure that there is no "cliff-edge", and to ensure that pay-grade differentials would be maintained.

There is clearly no double-counting between this item and the public sector pay freeze suggestion, but this figure has been reduced by 1.66 per cent to take account of the reductions in back-office staff that we suggest (see section 2.3).[189]

Rationale

The highest-earning 10 per cent – effectively all higher rate taxpayers in the public sector, from those on £45,000 to those earning more than the Prime Minister – are the most able to afford a loss of gross income, and we expect to see falls in gross pay for private sector executives this year.

While there is no systematic data on executive pay in the public sector, there is strong evidence that it has increased rapidly in recent years. For example, the number of employees earning more than £50,000 across local government has increased eleven-fold since 1996, compared with a three-fold increase in the economy as a whole over the same period.[190] Across government departments and a number of public bodies, there are now more than 200 people earning more than the Prime Minister.[191]

It is of course true that executive pay has also increased in the private sector, but given that the risk of dismissal for poor performance is also higher, a straightforward comparison between the two sectors is misleading. For most private sector directors, pay is not excessive: basic pay for an IoD member who

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[187] Office for National Statistics, *Annual Survey of Hours and Earnings,* 2008, Table 13.7a (all employee jobs)

[188] Total public sector employment of 6,020,000 in March 2009 (latest month available). Office for National Statistics, *Labour Market Statistics,* August 2009, Table 1a

[189] The 10 per cent headcount reduction in the civil service and in non-frontline staff in health and education, and the staff reductions as a result of the quangos we propose to abolish, totals a headcount reduction of roughly 100,000 in the public sector, which represents 1.66 per cent of the 6,020,000 public sector employees

[190] The TaxPayers' Alliance, *Council Spending Uncovered II: Middle Management Pay,* January 2009

[191] The TaxPayers' Alliance, *Public Sector Rich List 2008,* November 2008

is a managing director of a small company (up to £5 million turnover) averaged £65,000 last year.[192]

Additionally, a recent survey of IoD members also found that business executives across the country are cutting back, with around half experiencing pay freezes or pay holidays, and 40 per cent seeing their bonuses fall.[193]

Cutting pay for any members of staff is a difficult decision, but it is one that many businesses have had to take. As with a second year of a general pay freeze in the public sector, this is not a specific suggestion at this stage, but it may need to be considered in an emergency. If budgets were extremely tight, and ordinary public sector employees had to go through a second year of a pay freeze, then those most able to afford it would have to lead from the front.

[192] IoD/Croner, *Rewards Survey*, November 2008
[193] IoD *Policy Voice* survey of 1,316 IoD members conducted in August 2009

Appendix:
Full list of suggested savings and emergency possibilities

Table A1: The full list of suggested savings and emergency possibilities

Item	Item description	Annual saving, £m	
	Tackling areas of spending that are not performing		**£5,477**
1	Abolish the Bus Service Operators' Grant	£451	
2	Abolish Sure Start	£1,456	
3	Abolish Building Schools for the Future	£2,300	
4	Abolish the Education Maintenance Allowance	£530	
5	Halt further orders and upgrades for the Eurofighter	£740	
	Curbing over-extended government		**£1,595**
6	Halve the government advertising and publicity budget	£270	
7	Abolish Contact Point, the children's database	£44	
8	Abolish the NHS National Programme for IT (NPfIT)	£1,181	
9	Abolish identity cards	£55	
10	Abandon plans to extend the compulsory school leaving age to 18	£45	
	Cutting out the middle-man		**£6,928**
11	Halve public sector spending on consultants	£1,100	
12	Reduce non-frontline staff in health and schools by 10 per cent	£921	
13	Reduce the size of the civil service by 10 per cent	£1,233	
14	Scale down 'Local Education Authorities' (LEAs) in England	£599	
15	Slim down the Department for Communities and Local Government (DCLG)	£1,317	
16	Rationalise the framework of regional government and business support	£940	
17	Begin a thorough rationalisation of taxpayer funded quangos and public bodies, including total abolitions, funding reallocations and budget cuts	£818	
	Tackling specific budgets		**£6,491**
18	Cut 25 per cent from the budget of the Department for Culture, Media and Sport (DCMS)	£725	
19	One year freeze of the resource and capital budgets of the Department for International Development	£862	
20	One year freeze of the Home Office resource and capital budgets	£360	
21	One year freeze of the grants from the Department for Communities and Local Government to local and regional governments	£687	
22	Cut 10 per cent from the budgets of non-ministerial departments, except for UK Trade and Investment and the UK Statistics Authority	£1,700	
23	One year freeze of the grants given to Scotland, Northern Ireland and Wales (current spending only)	£1,400	
24	Simplify and rationalise the skills system and the plethora of skills programmes	£757	

Item	Item description	Annual saving, £m	
	Tackling above-inflation indexing		**£1,441**
25	One year freeze of the Basic State Pension and the Minimum Income Guarantee	£1,441	
	Restraining public sector pay and perks		**£8,711**
26	One year pay freeze across the public sector, excluding members of the armed forces serving in conflict zones	£6,203	
27	Increase employee contributions to all unfunded public sector pension schemes by a third	£2,508	
	Cutting middle-class welfare		**£11,999**
28	Abolish Child Benefit and the Child Trust Fund, and increase the Child Element of the Child Tax Credit to address child poverty concerns	£8,447	
29	Taper away the Family Element of the Child Tax Credit at 39 per cent immediately upon exhaustion of the Child Element of the Child Tax Credit	£1,350	
30	Target spending on free bus passes for the elderly and disabled on those who genuinely need it	£438	
31	Abolish free TV licences	£564	
32	Abolish interest subsidy to student loans	£1,200	
	Total annual saving from 2010-11 onwards		**£42,642**
	Further emergency possibilities after 2010		**£7,421**
33	A further one year pay freeze across the public sector, excluding members of the armed forces serving in conflict zones	£6,203	
34	Reduce gross annual pay by 5 per cent for the richest 10 per cent in the public sector	£1,218	
	Total potential annual saving from 2011-12 onwards		**£50,063**

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