REFORM

Back to black
Budget 2009 paper

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April 2009

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Reform

Reform is an independent, non-party think tank whose mission is to set out a better way to deliver public services and economic prosperity.

We believe that by reforming the public sector, increasing investment and extending choice, high quality services can be made available for everyone.

Our vision is of a Britain with 21st Century healthcare, high standards in schools, a modern and efficient transport system, safe streets, and a free, dynamic and competitive economy.

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Executive summary

Britain has got used to living beyond its means – an unsustainable position. The future health of the economy and public services will depend on the country moving "back to black". The Government has acknowledged that it cannot continue on the "never never". However, it has now embarked on the doomed course of raising taxes (a new income tax rate at 45p and a levy on National Insurance Contributions from April 2011) in the teeth of a recession. This is the wrong approach.

Focussing on tax fails to address the major cause of the fiscal crisis – namely excessive public expenditure. It would leave public spending at historically high levels during the recession, crowding out private sector investment in the recovery. Tax rises will choke off recovery and dampen long term growth prospects by making Britain less competitive and putting people off work. A long period of stagnation is the likely outcome.

Instead, the Government needs to deal with the state's excessive size. A new culture is needed where civil servants and ministers take the same care of public money as they do their own. This has been successfully adopted in London, where expenditure of over £1,000 is published on the web and the precept for London taxpayers has been frozen. There should be much greater transparency, with all expenditure published and procurement conducted on a truly open basis, for example in defence.

However, a new spending culture is not enough. The wings of government need to be clipped to make sure what is done is done well. Extra spending on services over the last ten years has led to confusion and duplication. It has distracted public services from their core purposes. The education department has failed to improve standards whilst trying to "ensure economic growth", take over child protection and interfere in family life. The health service has experienced a "flash flood" of cash leading to inflated salaries and constricting bureaucracy. Extra spending on welfare has increased benefit payments to the well-off and entrenched a culture of worklessness and low aspiration.

The crisis in the public finances should be the catalyst for a reform programme that is years overdue. While savings should be achieved by eliminating administrative waste and (for example) freezing civil service pay, that is not enough. The UK has nurtured a triffid of public spending that cannot be controlled just by lopping off a few outer leaves.

The Chancellor should announce a five year recovery plan that reforms and reduces the "big spenders" of government – health, defence, benefits, education and communities. This would mean encouraging early savings in 2009-10 and reducing public spending by at least £30 billion (4 per cent) in 2010-11 to kick-start reform. A strong reform programme will see public spending fall steadily in 2011-12, 2012-13 and 2013-14. Reform has set out the details of such a programme in recent publications.

The main proposals to reduce spending in 2010-11 are:

> Abolish universal Child Benefit. Instead Child Benefit should be targeted on families on low incomes. Saving: £7.1 billion (after making allowance for additional expenditure of £5 billion on the poorest families).

> Reduce the pay of doctors and NHS managers by 10 per cent. NHS pay rocketed in the middle years of this decade, far above the average rate of pay growth in the economy. NHS pay rises are already falling as the service returns to sanity, but not yet far enough. Saving: £1.3 billion.

> End inappropriate defence projects. Several projects (the future carriers, Eurofighter Tranche 3, A400M and Nimrod MRA4) do not contribute to the UK's modern defence requirements. Saving: £2.7 billion.

> Remove pensioner gimmicks, such as the winter fuel payment and free TV licences for over-75s. Saving: £3.2 billion.

> Introduce market rates for interest on student loans. Saving: £1.2 billion.

1

The uncomfortable truth about public expenditure

At the time of the Pre-Budget Report in November 2008, *Reform* argued that the economic situation was far worse than the Government would admit. *Reform's* report *The hole we are in and how to get out of it* described an "obese economy", weighed down by excessive debt. The research showed that the public finances were in a dire state, and that the Treasury's forecasts were unrealistic.[1]

Just five months later, the economy has worsened drastically. The Treasury's growth forecasts have been shown to be hopelessly optimistic. Public debt has soared, and the financial system is still in crisis. What is the current situation and how bad is it likely to get?

Figure 1: Forecasts for UK GDP growth 2009, percentage

	November 2008	March 2009
International Monetary Fund (IMF)	-1.3[2]	-3.8[3]
Confederation of British Industry (CBI)	-1.7[4]	-3.3[5]
Bank of England	-1.3[6]	-3.0[7]
Organisation for Economic Co-operation and Development (OECD)	-1.1[8]	-3.7[9]
HM Treasury	-0.75 to -1.25[10]	-0.75 to -1.25[11]

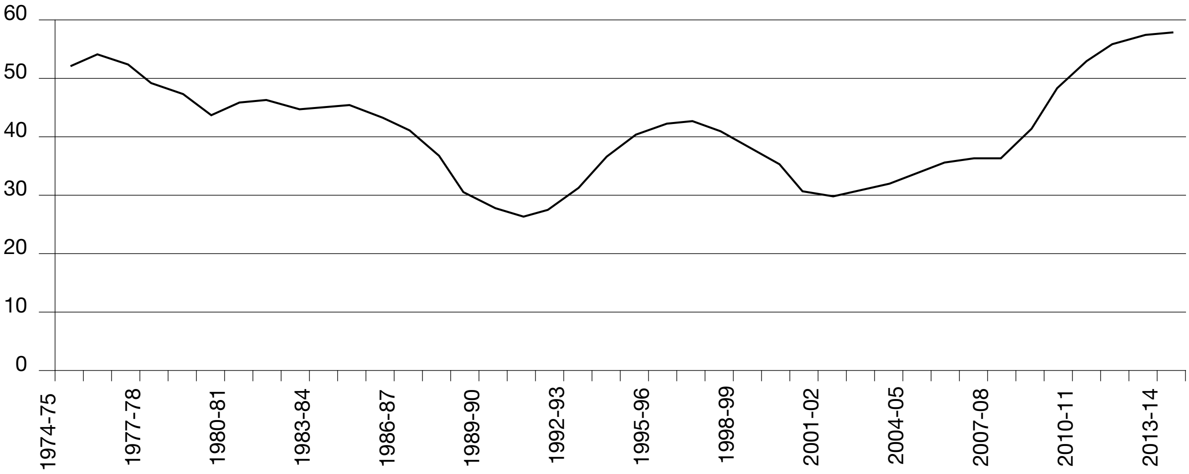
Although some commentators have optimistically suggested that "green shoots of recovery" have appeared the recession is still likely to last well into 2009 at a minimum. The latest independent economic predictions suggest that UK GDP is likely to shrink by at least 3 per cent this year. Even when economic growth reappears, unemployment is still likely to worsen, as employment growth tends to lag economic growth.

The Treasury's previous forecasts for the public finances were predicated upon a forecast of around a 1 per cent reduction in GDP. It is clear that the Chancellor will have to drastically revise this forecast in this month's Budget.

1 Bassett, D. et al. (2008), *The hole we are in and how to get out of it*, *Reform*.
2 International Monetary Fund (2008), *World Economic Outlook Update*, 6 November.
3 *The Times* (2009), "UK recession will drag into 2010 as others recover, says IMF", 18 March.
4 Confederation of British Industry (2008), News release: "Recession to be tougher and longer, says CBI", 17 November.
5 Confederation of British Industry (2009), *Economic & Business Outlook*, February.
6 Bank of England (2008), *Inflation Report*, November.
7 Bank of England (2009), *Inflation Report*, February.
8 Organisation for Economic Co-operation and Development (2008), *Economic Outlook Vol. 2008 No. 2.*
9 Organisation for Economic Co-operation and Development (2009), *Economic Outlook Interim Report*, March.
10 HM Treasury (2008), *Pre-Budget Report: Facing global challenges: Supporting people through difficult times*.
11 HM Treasury (2009), *Forecasts for the UK economy: A comparison of independent forecasts*, February.

The debt binge continues

Figure 2: Public sector net debt, percentage of GDP
Source: HM Treasury (2009), *Public finances databank,* February



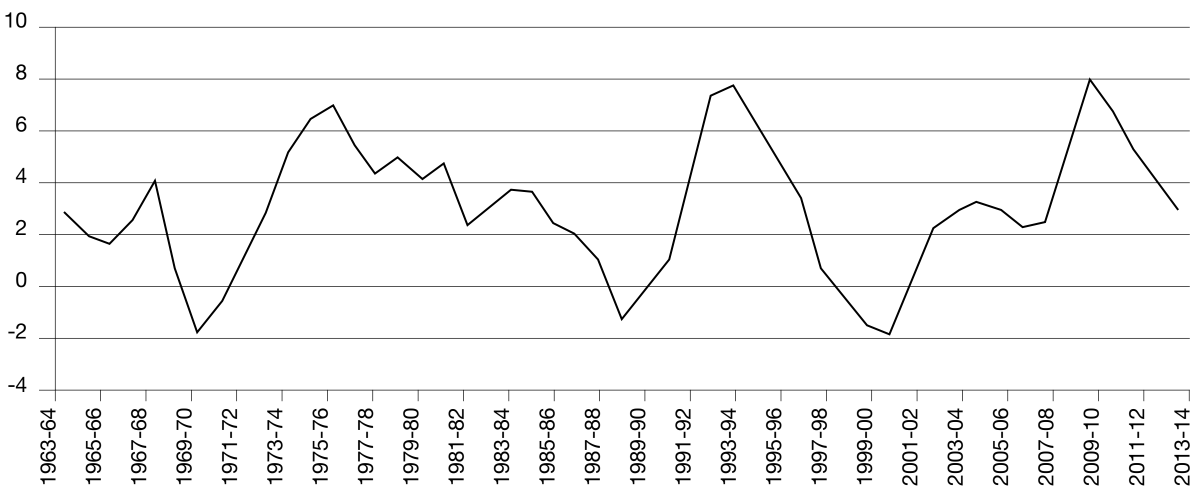
The figures announced in the Pre-Budget Report show that public debt is due to rise steadily, hitting 57.4 per cent of GDP or almost £1.1 trillion in 2013-14.[12] Public debt has been increasing steadily since 2002-03, even though economic growth for much of this period has been relatively strong.[13] This failure to repay debt and reduce spending (as proportions of GDP) during the good times means that the bad times are now likely to be longer and more severe.

The Pre-Budget Report figure for public debt seems likely to be a substantial underestimate. The Treasury is forecasting that public sector net debt will be 41.2 per cent of GDP for the financial year 2008-09. But its monthly figures show that debt has already far exceeded this level, reaching 48.6 per cent of GDP in January.[14]

Further, *Reform's* research has shown that liabilities not counted by the Treasury, including Private Finance Initiative liabilities and the banking bailout, add at least 22 per cent of GDP to the published figures, taking Britain's total projected net debt near to 80 per cent of GDP by 2013-14.[15]

The growing budget deficit

Figure 3: Public sector net borrowing, percentage of GDP
Source: HM Treasury (2009), *Public finances databank,* February



12 HM Treasury (2009), *Public finances databank*, March.
13 Ibid.
14 Ibid.
15 Bassett, D. et al. (2008), *The hole we are in and how to get out of it*, *Reform*.

A substantial increase in borrowing, fuelled by fiscal stimulus and falling tax revenues, is leading the Government to project borrowing of £118 billion in 2009-10 – around 8 per cent of GDP and more than triple the 2007-08 figure.[16]

Independent forecasts suggest that the Government will have to borrow far more than this. The OECD expects the budget deficit to exceed 9 per cent of GDP in 2009 and to rise further in 2010.[17] This deficit is not only high by historical standards, but also highlights how far the UK fiscal position is from Gordon Brown's now-abandoned "golden rule" or the requirement of the Maastricht Treaty that the deficit is kept below 3 per cent of GDP.[18] A "borrow now, pay later" culture is not new in the UK; as figure 3 above shows, governments have often run persistent deficits since the 1970s.

The structural budget deficit

The structural deficit – the fiscal deficit adjusted for cyclical ups and downs – is forecasted to reach 7.2 per cent of GDP by 2009-10 – the highest level for 34 years.[19]

After a period of sustained economic growth, a high structural deficit shows that the long-term level of public spending is exceeding revenues from taxes. This deficit can only be addressed by reducing spending or increasing taxation.

The worst case scenario

It is clear that, even given the Treasury's optimistic projections, the hole in the public finances is very large and is growing bigger. However it is likely that the situation will be worse than the Government is forecasting. Tax revenues and growth are likely to be lower, and unemployment higher, than previously expected.

Growth

As shown earlier, the previous Treasury estimates were based on a much smaller reduction in GDP this year than leading independent bodies predict. These estimates also, however, over-estimated the speed at which the economy will recover.

The Treasury have forecast GDP growth of 1.5 per cent to 2 per cent in 2010.[20] Independent forecasts suggest that this is extremely unlikely: the IMF predicts growth of just 0.2 per cent in 2010[21], while the OECD expects the UK economy to continue shrinking until at least 2011.[22]

Unemployment

As the impact of recession continues to be felt, unemployment will rise. In the Pre-Budget Report the Treasury predicted an increase in claimants of around 44 per cent by the end of 2009 or 58 per cent by the end of 2010.

However, independent forecasters such as the OECD expect the total unemployment level to rise by at least two thirds. An increase in unemployment would have a significant effect on the public finances, depressing tax revenues and increasing welfare payments.

Tax receipts

Figure 4: Current receipts, £ billion
Source: HM Treasury (2008), *Pre-Budget Report: Facing global challenges: Supporting people through difficult times*

Outturn 2007-08	Estimate 2008-09	Projection 2009-10
547.5	545.5	535.5

16 HM Treasury (2009), *Public finances databank*, March.
17 Organisation for Economic Co-operation and Development (2009), *Economic Outlook Interim Report*, March.
18 Office for National Statistics (2008), *First release: Government deficit and debt under the Maastricht Treaty*, 30 September.
19 HM Treasury (2009), *Public finances databank*, March. The structural deficit was 7.2 per cent of GDP in 1975-76.
20 HM Treasury (2008), *Pre-Budget Report: Facing global challenges: Supporting people through difficult times*.
21 International Monetary Fund (2009), *World Economic Outlook Update*, 28 January.
22 Organisation for Economic Co-operation and Development (2009), *Economic Outlook Interim Report*, March. The OECD predicts UK GDP will contract by 0.2 per cent in 2010.

The Pre-Budget Report predicted a fall in total tax receipts of just £2 billion in 2008-09, and of another £10 billion – less than 2 per cent – in 2009-10. Given the severity of the recession and an expected rise in unemployment of around 4 percentage points, this forecast seems optimistic. The Institute for Fiscal Studies (IFS) expects tax receipts to fall by £6.6 billion more than the Treasury forecasts in 2008-09 and by £6.1 billion more in 2009-10.[23]

One independent forecast predicts a fall in receipts in 2009-10 from the financial sector alone of £28 billion and expects that they will stay depressed until at least 2013.[24] The scale of this fall in tax revenues highlights the significance of changes made to the tax system over the last decade that have meant that tax revenues are much more volatile following changes in economic growth.

The outcome

If the worst case scenario plays out and, as seems likely, the economy worsens further and faster than the Pre-Budget Report forecasted, the public finances will suffer even more than is currently expected.

In such a case borrowing could reach 11 per cent of GDP – over £150 billion – by 2010.[25] The IFS expects public sector debt to continue growing, reaching 73.5 per cent of GDP in 2015-16, or 82.4 per cent of GDP if the long-term impact of the bank bailouts is taken into account.[26]

The long-term gap

The worsening economic situation and current spending levels mean that the long-term gap between tax revenues and public spending will continue to grow even larger than the Treasury has forecast.

This structural deficit will result in a long-term trend of rising public sector debt, which the IFS estimates could exceed 90 per cent of GDP by 2050, and a growing budget deficit.[27] This implies that for every pound that the government spends, 21 pence will have to be spent on debt repayment.[28] The Government's cupboards are not only bare, they have been mortgaged.

Closing this gap would require tax rises equivalent to £1,250 per family, or a reduction in public spending of around 6.3 per cent – £40 billion – from its current level.[29] This rebalancing would then need to be sustained in the long-term.

What can be done?

The Government is left with two options – either increase the burden on taxpayers (or find alternative sources of income) or make hard decision regarding spending. As the economy has grown in recent years, the tax burden as a proportion of GDP has also been increasing and so the scope for increasing taxes in the shorter term is limited.[30] *Reform* will be investigating medium-term options for modernising the UK tax system later this year.

On the spending side, either spending can be allowed to rise (or stay at the same level in real terms) and the hole grows and grows, prolonging the recession and stunting long-term economic growth. Or, we move towards a leaner, fitter economy which will put the UK on a path towards sustainable economic growth. The following chapters present proposals to achieve this second approach.

23 Institute for Fiscal Studies (2009), *The IFS Green Budget 2009*.
24 Centre for Economics and Business Research (2009), *Forecasting Eye: Tax revenue from financial service sector down by £28 billion – equivalent to four fifths of the entire defence budget*, 16 March. Predicts a tax take from financial services of £39 billion in 2009-10 compared to £67 billion in 2006-07.
25 International Monetary Fund (2009), *Global Economic Policies and Prospects*, 19 March. The IMF expects borrowing of 11 per cent of GDP in 2010; Institute for Fiscal Studies (2009), *Budget 2009: tightening the squeeze?*, April. The IFS expects borrowing to peak at around £150 billion – 10.5 per cent of GDP – in 2010-11.
26 Institute for Fiscal Studies (2009), *Budget 2009: tightening the squeeze?*, April.
27 Ibid.
28 Offord, M. (2009), *Bankrupt Britain: A guide to the state of the British Economy*, Centre for Social Justice.
29 Ibid; HM Treasury (2009), *Public finances databank*, March.; *Reform* calculations based on the IFS requirement of a further fiscal tightening of 2.7 per cent of GDP and Total Managed Expenditure for 2008-09 forecast by the Treasury at 42.6 per cent of GDP.
30 HM Treasury (2009), *Public finances databank*, March.

2

The necessity of public spending reduction

The political debate on public finances has moved on since the Pre-Budget Report in November 2008. At that time the Government was arguing strongly for a fiscal stimulus to recover economic growth, and gave the impression that a further stimulus would follow if economic conditions required it. But since then the deterioration in the public finances has ended talk of further borrowing. The Governor of the Bank of England, Mervyn King, ended any further speculation in his appearance before the Treasury Select Committee on 24 March.[31]

The debate now turns on eliminating the current deficit – which means either increasing taxes or reducing spending. But the debate has so far given insufficient attention to the wider economic consequences of these decisions. Cutting public spending can have a beneficial economic impact compared to the alternatives of further increasing taxes or increasing the debt burden. It will also improve public sector performance and increase the capability of individuals.

The key to successful public spending reduction is to learn from the mistakes of the past and to cut spending as part of a long term reform programme.

Spending cuts will benefit the economy

Critics argue that spending cuts will reduce demand and output. However, *Reform*'s previous research has shown that set against this will be the gains from raising confidence that government has a realistic plan for recovery, and the demand stimulated by a long-term move to a sustainable low tax economy made possible by lower public spending.[32]

The recession is reducing both the number of taxpayers and total tax revenues. Already in 2008, 21 per cent of the working age population was economically inactive.[33] Rising unemployment will increase this. Any increase in the tax burden would therefore have to be paid mainly by the working age population who are still in the work force, with potentially serious effects on work incentives. Further, increasing taxation during the recession could have a negative impact on recovery. Tax rises should be avoided as the UK looks to move towards a sustainable, lower tax economy in order to boost long-term growth.[34]

Increased globalisation has driven a worldwide movement towards lower taxation which has effects both on business and personal taxes. For business taxes there are pressures from competition, as cities around the globe are in direct competition for investment. Investment in the new service economy and in the new manufacturing is much more mobile than it was in the days of huge plants located in company towns. Ability is also more mobile, with locations competing for scarce resources in talent and qualified staff.[35]

Higher public spending reduces growth in the long-term by crowding out innovation and competition. There is evidence to suggest that a rising public expenditure as a share of GDP lowers the long-term growth rate.[36] One recent study suggests that for every one percentage point increase in the share of government consumption in GDP, there is a reduction in GDP growth of 0.2 percentage points.[37] In some parts of the country, it is estimated that over 70 per cent of the economy is now dependent on the public sector.[38]

31 King, M. (2009), uncorrected evidence, House of Commons Treasury Select Committee, 24 March. "*Mr Love*: The IMF in successive reports has forecast a larger and larger decline in world output and, therefore, one presumes in the short-term the continuing of that series. Is there an argument to be made for a second fiscal stimulus to respond to what is likely to be a further decline in the world's economic output? *Mr King*: I am sure the Government will want to be cautious in this respect. There is no doubt that we are facing very large fiscal deficits over the next two to three years …. Given how big those deficits are, I think it would be sensible to be cautious about going further in using discretionary measures to expand the size of those deficits …. the fiscal position in the UK is not one that would say, 'Well, why don't we just engage in another significant round of fiscal expansion?'"

32 Bassett, D. et al. (2008), *The hole we are in and how to get out of it*, *Reform*.

33 Office for National Statistics (2009), *Labour Force Survey, October-December 2008*.

34 Bassett, D. et al. (2008), *The hole we are in and how to get out of it*, *Reform*.

35 Bosanquet, N. et al (2007), *UK growth and opportunity –the need for a fundamental reassessment*, *Reform*. "Movement of both capital and labour across borders increases competition in labour and product markets. Workers and firms are developing more effective strategies for meeting such competition. Product cycles have speeded up so that people have to take decisions and develop new responses faster. Globalisation strengthens the case for local and personal decision-making on investment by individuals and firms as against central planning by governments. At the same time, growth in the globalised economy depends on innovative products and services. These depend on private demand as the public sector mainly supports mature large firms which are able to bid for large public sector contracts. Rising taxation reduces the spending margin for new services, which is the margin left over after day to day living expenses. Thus globalisation has vital significance for the tax/spend balance. It strengthens the case for restraint in raising public expenditure and taxation."

36 International Monetary Fund (1995), *Unproductive Public Expenditures: A Pragmatic Approach To Policy Analysis*.

37 Pak, H. (2007), "Government Expenditure and Economic Growth: The Supply and Demand Sides", *Fiscal Studies*, Vol. 28 No. 4, pp. 497-522.

38 Pryce, W. (2009), Submission to the National Assembly for Wales Enterprise & Learning Committee, 19 March: "71 per cent of the total Welsh economy is now dependent on the public sector."

The composition of government expenditure is also significant, with expenditure in the UK being relatively biased towards redistribution rather than supporting economic growth.

In addition public spending cuts will secure the basic credibility of the UK public finances and prevent the need for emergency measures such as the intervention of the International Monetary Fund. Even if the possibility of default is low, it is rising, given the worsening position of the public finances. In his recent budget statement, the Finance Minister of Ireland, Mr Brian Lenihan, placed his recommendations in the context of the need to secure credibility among investors.[39],[40]

Spending cuts will improve public sector performance

Cutting public spending would improve public sector performance. The public sector growth of the past 10 years has been predicated on political discourse that public spending is a "good thing". It has also led to a very damaging lack of cost control and clear management in the public services. Much of the money has been wasted or even contributed to inefficiency.[41] The problem of under-funding has now been replaced by a new problem of under-performance.

The IMF has carried out sustained international comparisons of the productivity of public expenditure across countries. The results show very clearly that governments spending around 35 per cent of GDP are more efficient and more effective than governments spending over 40 per cent of GDP. The productivity of public spending falls so that after the 35 per cent level the gains in social and economic terms diminish. In effect the costs of public spending start to increase much faster than the benefits.[42]

There is now clear evidence that the British public sector is affected by very serious productivity problems. The following chapters offer empirical evidence for this and demonstrate where efficiency gains could be made without affecting the quality of services. Professor Nicholas Crafts has said, "There is a productivity problem in the public sector which implies that the tax burden is higher than it needs to be to achieve the present level of outcomes."[43]

Spending cuts will improve individual capability

The other major reason for the rise in public spending has been the expansion in non-means-tested benefits. One recent example is the Government's new pregnancy grant of £190, paid to every expectant mother, irrespective of need.[44] This kind of entitlement drives up expenditure while doing little to help those who really need the support of the state. Further, they have spread the net of state dependents wider than ever before to include many of the formerly independent middle class.

This is contrary to the way that most people want to develop their finances. The last ten years have seen a shift towards personal funding of both pensions and higher education. The recession has increased the urgency of encouraging increased private saving amongst different age groups. Younger age groups will have to repay larger amounts of debt for higher education. The impact of the recession on pensions has sharply reduced expected pensions income in the private sector, creating a requirement for further saving in the future. People also need to save short term to raise security in the face of unemployment risk.

The recovery will raise the need for people to invest in their own futures. There is a pervading culture in government that investment should mainly be achieved through public spending. However, people need to be able to invest their own resources in adding to their own capability.

39 Department of Finance (2009), *The Budget – An Buiséad*. "There are six steps we must take to restore and renew this economy. First, and most urgent, we must stabilise our public finances. Until we show that we can put our own house in order, we cannot expect those who have invested here and who might invest here in the future to have confidence in us …. A difficult balance must be struck between the need to show a credible way forward on our structural problems and the need to protect our economy as far as we can this year."

40 Mr Lenihan made the further point that future borrowing will increase the costs of debt interest payments: "The problem is our expenditure base is too high and our revenue base is too low. If we fail, refuse or neglect to address this structural problem we will condemn our generation and the next to the folly of excessive borrowing. Already, the share of tax revenues that go to service the national debt has risen from 5 per cent in 2007 to more than 11 per cent this year. As we accumulate more and more public debt, this figure increases. This is dead money that should be used to improve vital public services."

41 Bosanquet, N. et al. (2008), *A lost decade: Counting the opportunity cost of public spending 1999-2008*, *Reform*.

42 Tanzi, V. and Schuknecht, L. (2000), *Public spending in the 20th century: a global perspective*, Cambridge University Press.

43 Afonso et al. (2005), "Public Sector Efficiency: An international comparison", Public Choice, Vol.123 No.3-4, pp.321-327; Sutherland, D. et al. (2007), "Performance Indicators for Public Spending Efficiency in Primary and Secondary Education", *OECD Economics Department Working Papers*, No. 546. Afonso et al. estimated that if the UK attained the highest international standards of efficiency in the use of public expenditure it could achieve the same results spending 16 per cent less. A similar result (15 per cent) for the education sector alone was reported by Sutherland et al. in 2007.

44 *The Observer* (2009), "£190 to help pregnant women eat healthily", 5 April.

Cuts need to go with the grain of reform

There are lessons to be learned from past crises in the UK. In 1968 following the devaluation of the pound, in 1976 after IMF intervention and in the mid-to-late 1990s there were packages of cuts. These were politically traumatic and did not result in long-term reductions in public expenditure.

The experience of the last decade has demonstrated that "slash and burn" cuts lead to a public perception of underfunding; the result of this was a consensus in favour of massively increased spending.[45] Any cuts in expenditure need to form part of wider structural reforms. Arbitrarily reducing budgets can often generate bigger inefficiencies as managers look to reduce the most visible expenditure rather than the least productive.

Finance should dictate expenditure, not vice versa

In 1976 the main focus was on the inflation rate and associated problems of incomes policy. Public spending began to rise again within 18 months of the IMF crisis prompting the incoming Chancellor, Sir Geoffrey Howe, to say in 1979 that finance should dictate expenditure, not expenditure finance.[46]

With the increase in the scale of public expenditure over the past decade, a culture has developed where the Government decides what programmes and entitlements it wants to provide and then considers how much it will cost and how the cash will be raised. A shift is needed to a mindset that there is a fixed amount to spend and the best possible services should be obtained for that sum.

The way forward to recovery

The Government must create confidence in this recovery. A central part of this is a viable plan for containment and reform of public spending. The level of public spending has to be aligned to a realistic assessment of the tax revenues likely from the economy. Any other course, with likely increases in revenue costs, is the route to rapid increases in debt and a collapse of confidence. Funding spending through debt is a high risk strategy incompatible with confidence and therefore economic recovery. It is vital that the tax burden should be contained. This will leave room for private spending on new products and services which will drive recovery. It will also allow increased saving for making up losses in private pension funding brought about by the recession and for greater household security.

The big spenders

The five largest government departments – Work and Pensions, Health, Education, Communities and Local Government and Defence – account for 64 per cent of public spending.[47] To some extent their budgets can be trimmed by cutting the extraneous quangos, initiatives and capital programmes that these departments have undertaken.

However there is a structural problem that goes beyond these "easy cuts". Many people's jobs and security rely on larger government departments and the new entitlements that have emerged.

These have become the "untouchables" of public expenditure, where no politician wants to tread. However the expenditure that has been lavished on, for example, the National Health Service and pensions cannot continue at its current level without grave consequences for the future wealth of the country.

45 Bassett, D. et al. (2008), *The hole we are in and how to get out of it, Reform.*
46 Hansard (1979), Col. 840, 19 June.
47 See Appendix 2.

A new five year programme

The UK needs a five year reform plan which immediately contains public spending and then, through reform, moves towards smaller, more effective government:

- In 2009-10, public spending has already been committed. But public agencies should nevertheless seek to build up surpluses that could be put towards reducing the following years' budgets.
- In 2010-11, revision of the current public spending plans to reduce total expenditure in cash terms. The public sector can and do must more with less.
- In 2011-12, 2012-13 and 2013-14, carry out thorough on-going reform of the public sector. Reform has set out the details of such a programme in recent publications. The principles are:
  - reduce state activity though inefficient quangos and pet projects;
  - intensify a reform process within public services and government departments; and
  - reduce entitlements of those who have been caught in the very wide welfare net.

The result of this programme should be to eliminate most of the UK's structural deficit by 2013-14. The goal should be to eliminate the deficit, but actual progress will be determined partly by the rate of economic growth.

The table below provides a summary of the proposed cuts, set out in full in chapters 3, 4 and 5, which would reduce public spending in 2010-11 by around £30 billion – equivalent to around 4 per cent of forecast total managed expenditure for that year, or 2 per cent of GDP.

Figure 5: Summary of proposed public spending cuts

Policy area	**Savings in Budget 2010-11 (million)**
Whitehall	£394
Work and Pensions	£10,845
Health	£5,205
Education	£5,372
Communities and Local Government	£4,400
Defence	£2,667
Total savings	£28,883

3

A new spending culture

The boom of the last decade has created a culture of irresponsible spending. Government and individuals alike have been spending more than they have been earning, consuming more than they have been working. The result has been a decline in productivity and mounting debts.

In the public sector, where it is other people's money being spent, this spending culture has become pervasive. MPs have been claiming unnecessary expenses. Civil servants' wages have increased regardless of performance of departments. Budget processes see departments trying to use up unspent money at the financial year end to secure more for next year. Top-down long-term spending commitments are made based on Ministers' pet projects. Competitive procurement processes are based on antiquated principles and carried out without the necessary skills.

The catalyst for change

The recession must be the catalyst for a new spending culture in Whitehall based on responsibility, accountability and realistic remits. Every public sector worker should feel personal responsibility for the money they spend and the money they save. They should spend taxpayers' money with at least the care they would give to their own. This change of mindset would be reflected in everyday changes such as travelling by economy rather than business class, to larger scale changes around focusing on value for money. It should start at the very top with MPs reviewing the expenses they have become accustomed to claiming and filter down throughout the entire sector.

This approach of responsibility, accountability and realistic remits has already been shown to work. In the case of the Greater London Authority (GLA), for example, internal discipline on spending has been improved through measures such as:

> Publishing all Greater London Authority expenditure over £1,000 on the Mayor's website.[48]

> Requiring the Mayor to sign off personally any City Hall spending over £50,000.

As a result in 2009-10 the Mayor was not required to increase the GLA precept from London council taxpayers, for the first time in the history of the GLA.[49]

An accountable civil service

Reform's recent *Fit for purpose* report set out the systemic weaknesses in Whitehall which act as a barrier to the achievement of the social and economic objectives of government.[50] Our research found that the root cause is the lack of accountability that pervades the British Civil Service, and which is inextricably linked to the structure of Whitehall.

The financial crisis has claimed many scalps in the UK, with politicians being pressured into giving public apologies and senior bankers being interrogated by the Treasury Select Committee. Yet where are the civil servants whose job it was to ensure the effective administration of the country? The Cabinet Secretaries and the Permanent Secretaries of the Treasury over the last fifteen years also bear personal responsibility for the economic crisis, but they will not be publicly held to account, nor will they risk losing their jobs or their bonuses.

This culture must change. Civil servants must feel personally and individually responsible for the taxpayers' money they spend. There are a number of ideas for ways in which this could be achieved, set out below.

48 Available at www.london.gov.uk/gla/expenditure/index.jsp.
49 Greater London Authority (2009), London Assembly, minutes of Mayor's Question Time, 28 January.
50 Haldenby, A. et al. (2009), *Fit for purpose*, *Reform*.

Facing tough choices over staff costs

While the recession is pushing private sector companies to make tough choices on personnel costs, public sector workers seem to have remained largely immune to the downturn thus far. In the private sector measures including voluntary redundancies, foregone bonuses, pay cuts or freezes and even shorter hours with commensurate pay cuts have been introduced in efforts to reduce costs without making good workers redundant. The differing response to the recession by the two sectors is stark: last year private sector salaries fell by an average of 1.1 per cent and 105,000 jobs were shed, while in the public sector salaries rose by 3.7 per cent on average and 30,000 new jobs were created.[51]

A cultural change is needed in the Civil Service so that going forward the expectation is not that pay will rise regardless of the state of the Government's books and of departmental performance. In the immediate term, some of the following initiatives could be implemented to reduce costs:

Freeze all Civil Service salaries for 2009-10 and 2010-11

Pay settlements for the general Civil Service have not been agreed, but at a time of recession and a growing budget deficit, it is irresponsible for the Government to agree a wage rise of 1.5 per cent for 4,185 senior civil servants.[52] The Prime Minister was right to reject the 2.1 per cent increase in base pay recommended by the Senior Salaries Review Body (although when recycling savings are added to the 1.5 per cent agreed, the actual increase would be more like 2.3 per cent).[53] These recommendations are part of a pay settlement agreed in June 2008 for a 7 per cent increase in senior salaries in the period 2008-2011.

The current economic situation means that the pay deal for senior civil servants must be revisited. Reform should go further and freeze all Civil Service salaries for the next two years. On a conservative estimate and assuming that headcount numbers remain the same, this would save approximately £166 million in 2009-10 and £169 million in 2010-11.[54]

Additional savings could be made if civil service salaries were pegged to private sector salaries for 2009-10 and 2010-11. It is likely that the recession will push private sector salaries down further in the short-term. If Civil Service salaries were pegged to the private sector for the next two years approximately £120 million further could be saved in each year, on the assumption that private sector salaries fell by the same amount as last year.[55]

Award no senior Civil Service bonuses

In 2008 a total of £25 million was awarded to approximately two thirds of senior civil servants as bonuses, an average of 10.8 per cent of base salary.[56] If no bonuses are paid in 2009-10, on a conservative estimate this could save around £25 million, and a similar amount the year after.[57]

Cut working hours with a commensurate cut in pay

In an effort to spread the impact of the economic downturn across all employees, accountancy firm KPMG asked staff to move to a four day week with a 20 per cent cut in pay.[58]

A similar requirement across the Civil Service could save £2 billion.[59] This estimate assumes 100 per cent coverage of a four day week across all full-time civil servants. If coverage was only 10 per cent of full-time civil service staff (and based on the same set of assumptions) then it could save £200 million.

However, it should be noted that this measure should not be premised on a projection that following the recovery all employees would simply return to a five day week and commensurate salary. As part of *Reform's* proposed new culture of spending, managers should be asked to review changes in productivity to identify areas where staff numbers could be reduced over the medium-term.

51 Office for National Statistics (2009), *First Release: Public Sector Employment Q4 2008*; Office for National Statistics (2009), *First Release: Labour Market Statistics March 2009.* Figures include bonuses and are as at January 2009.
52 Number 10 (2009), *Written Ministerial Statement on the 31st Report of the Review Board on Senior Salaries*, 31 March.
53 Ibid.
54 Office for National Statistics (2009), *Civil Service Statistics*; *Reform* calculations. Based on a 1.5 per cent increase in median salaries in each year as awarded to the senior civil service, and not taking into account inflation. Since 1998, the average annual increase in civil service pay has been 3.8 per cent, hence this increase is a conservative estimate.
55 Office for National Statistics (2009), *Civil Service Statistics*; *Reform* calculations. Based on a 1.1 per cent fall in Civil Service salaries in each year.
56 Office of Manpower Economics (2009), *31st Report of the Review Board on Senior Salaries*.
57 Ibid; *Reform* calculations using a conservative estimate based on 2008 bonuses.
58 *The Times* (2009), "KPMG offers staff unpaid leave or four-day weeks", 17 January.
59 Office for National Statistics (2009), *Civil Service Statistics*; *Reform* calculations. Based on a commensurate 20 per cent cut in median salaries. These estimates include direct savings only.

Reform pensions provision

Taxpayer-funded defined benefit pensions in the public sector are out of kilter with private sector pensions and represent an immense unfunded liability.[60] They should be reviewed and reformed. The main recommendations would be a move towards defined contribution schemes by restricting new entrants to defined benefit schemes[61] and for the level of employer and employee contributions required to increase to an actuarially fully-funded basis.[62]

The above proposals are short-term measures to urgently reduce the public spending burden. In the long-term, *Reform*'s research has shown that the performance management structures of the Civil Service should be reviewed so that talented employees are rewarded and promoted, and poor performers are not able to "coast". Recruitment should be open to external candidates and led by individual line managers, and terms and conditions should be revised so that managers are empowered to effectively deal with poor performance.[63]

Incentivise underspending budgets

Ministers and departmental leaders must also change the prevailing attitude in budget negotiations. Instead of Ministers fighting to secure as large an increase in their department's budget as possible every year, the focus should be on trying to reduce budgets. Managers and departments should be rewarded for spending less than in previous years and, in the new culture of being personally responsible for every pound of taxpayers' money that they spend, should aim to ask the Treasury for less money each year, not more.

The culture of "using up" unspent money at the financial year-end is inconsistent with principles of good financial management. In well-run private sector organisations managers are appraised on improving value for money. If they spend less than they budget for they are praised for this and the unspent money stays in the central pot to be used as necessary in the future.

Greater efficiency savings

All departments are committed to making "efficiency" savings under the Government's Gershon programme introduced in 2004.[64] Last month, Yvette Cooper, Chief Secretary to the Treasury, urged Cabinet Ministers to seek greater value for money savings going forward. In the 2007 Comprehensive Spending Review, the Government reported across-the-board efficiency gains of over £20 billion and extended the target to another £30 billion by 2010-11.[65] Examples include £60 billion of gains within the Department of Transport from moving the booking of services such as driving tests online.

However, a 2007 National Audit Office report concluded that only around a quarter of the savings reported to date "fairly represent efficiencies made", while the remainder could be misleading by being, for example, based on budgeted rather than actual costs.[66] The report did find that the programme had started to bring about a "greater focus on value for money issues among senior staff". Firmly embedding this attitudinal change should be a priority across all of government.

Reform the procurement process

A large slice of the Government's efficiency targets relates to the procurement process. Yet the current process of procuring goods and services in the public sector is inefficient and wasteful. In discussions with *Reform*, consultants who negotiate procurement deals with the Civil Service or on its behalf have described major weaknesses including:

> A lack of commercial capabilities. Civil service officials responsible for negotiating with private sector specialists often lack the commercial experience and skills needed to procure effectively. The Civil Service continues to pay over the odds for procured services and goods, or to incur costs for consultants or interim managers to be brought in temporarily. Instead, it should move towards investing in training to get the most from existing talented employees, or paying market rates to recruit external experts, to ensure value for money from procured goods and services.[67]

60 Record, N. (2008), *Sir Humphrey's Legacy: An Update*, Institute of Economic Affairs.
61 Unlike the private sector, defined benefit schemes remain common in the public sector. A move towards defined contribution pension schemes (as has taken place in the private sector) could be achieved by simply restricting new entrants to schemes. Existing recipients would remain entitled to schemes and could continue contributing.
62 The actuarial process used by the government means that the contributions that HM Treasury charges public sector employees and employers are less than the annual cost of pensions (see Record, N. (2008)). In the *Public Expenditure Statistical Analyses 2008* the effective subsidy to public sector pensions was an estimated £7.1 billion in 2010-11.
63 Haldenby, A. et al. (2009), *Fit for purpose*, *Reform*.
64 Gershon, P. (2004), *Releasing resources to the front line: Independent Review of Public Sector Efficiency*.
65 HM Treasury (2007), *2007 Pre-Budget Report and Comprehensive Spending Review: Meeting the aspirations of the British people*.
66 National Audit Office (2007), *The Efficiency Programme: A Second Review of Progress.* Based on efficiencies reported as at September 2006.
67 See also, Bentley, N. (2007), "Public procurement reform at the heart of government efficiency", *Opinion pieces on improving government efficiency,* National Audit Office.

> Clarifying what "value" in public services is tends to be more difficult than in the private sector.[68] This can lead to procurement processes where arguments based on ideas such as 'sovereignty' (such as ensuring security of supply) are used to justify protectionism for domestic industries. This leads to inflated costs and poor quality goods and services. The Ministry of Defence is an example of this, as explained below.

Commercial skill

The CBI has suggested the establishment of procurement "academies" as a way of building up dedicated commercial teams across government who could develop long-term relationships with suppliers and maintain sustained market engagement.[69]

Procurement accounts for over half of the total Ministry of Defence's budget.[70] Yet, the Office for Government Commerce's review of the Department's procurement capabilities found major weaknesses: staff "lack the broad commercial skills essential for the future", the commercial function is "underpowered at the senior level" and there remains no "comprehensive procurement systems strategy … to support end-to-end commercial processes."[71]

Costly protectionism

Defence procurement is an area that has been subject to intense criticism. Through the Defence Industrial Strategy, the Ministry of Defence is obliged to procure "from a sustainable industrial base, that retains within the UK those industrial capabilities (including infrastructure, skills, intellectual property and capacity) that are required, from a national security perspective, to ensure our appropriate sovereignty".[72]

This protectionist policy prevents the development of proper competition in the supply of defence equipment and leads to higher prices being paid while quality deteriorates. This exposes our armed forces to real risk. Sovereignty arguments should not be used to justify procurement from uncompetitive industries where more than adequate security of supply can be provided by other suppliers.

Reform's previous research has shown that the police service is a prominent example of inefficiency in public sector procurement.[73] Organised on a force-by-force basis, equipment and services are procured independently 43 times across England and Wales. This results in duplication and decreases value for money as similar systems are designed multiple times from scratch. Incompatibilities between separately-procured IT systems mean that information is not shared, necessitating wasteful duplicate data entry and impacting on the ability of police officers to work efficiently.

Competition and outsourcing

There is clear evidence that more competition and outsourcing can produce services at lower cost. For example, in-house provision of care home places costs an average of £716 a week, compared to £420 a week from independent providers.[74] Wider deployment of outsourcing and procurement competition could decrease costs while increasing the quality of provision.

Local government means more efficient spending

There is also clear evidence that more local services can often achieve better value for money and budget control. Hammersmith and Fulham Council, for instance, cut its council tax while introducing new services such as high-profile, round-the-clock beat policing, after introducing a series of efficiency reforms and "common sense" policies such as competitive tendering.[75]

Many of the most serious value problems have been in big ticket programmes run by central government, such as the NHS "Connecting for Health" computer system and the ID cards programme. Local government has shown capability in improving services with much more restricted budgets.

This is in part because local government deals with smaller, more manageable sums of money while the billions in central government programmes are too large to be managed effectively. Local control over public services is often an important step towards better management and greater value in public spending.

68 See for example, Davies, R. and Featherstone, H. (2009), *How can Tories improve public services and make cuts?,* publicservice.co.uk.
69 Ibid.
70 Office of Government Commerce (2008), *Procurement Capability Review Programme: Ministry of Defence.*
71 Ibid.
72 Ministry of Defence (2005), *Defence Industrial Strategy: Defence White Paper (CM 6697).*
73 Bassett, D. et al. (2009), *A new force*, *Reform*.
74 Bosanquet, N. (2009), "Six simple steps to a healthier health service", *The Daily Telegraph*, 28 March.
75 Greenhalgh, S. (2008), *The New Good Council Guide Part One*, Centre for Policy Studies.

4

Education, Communities and Defence – cutting quangos and initiatives

Attempts to achieve central targets and widen ministerial portfolios have diverted the education, communities and defence departments from their core purposes. Education has been merged with children and families and is now responsible for child protection and family policy. The previous Local Government Department is now responsible for a vast portfolio of activity from business support to community cohesion. Defence is not only responsible for protecting the nation but also for supporting segments of the UK manufacturing industry. Judicious reductions of these departments' extraneous programmes will not only save public money, it will also help the departments focus on their key purposes and provide a platform for long term reform.

Education

In education a bureaucracy has developed that is unresponsive to the consumer and restricts professional judgement.[76] The combined 2010-11 budget of the Department for Children, Schools and Families (DCSF) and the Department for Innovation, Universities and Skills (DIUS) is £98 billion – £72 billion and £26 billion respectively.[77] In 2008-09 the two departments funded at least 22 quangos with a combined budget of around £24 billion.[78] To pursue important reforms such as the academies programme expansion and higher education funding change, it is vital that costly central dictation and extraneous activities are removed. This will free resources and capacity for reform.

Abolish costly central dictation

Money should be spent at a school level not on national vanity projects. The controversial children's database Contact Point (which had start up costs of around £224 million) should be abolished, saving the annual running costs of £44 million.[79] Greater trust should be placed in local decision makers. The British Educational Communications and Technology Agency's national procurement strategy is a major block to innovation. It should be scrapped – saving £11 million on Becta's 2010-11 budget[80] – and schools left free to explore less costly options such as open source software.[81] The wasteful Building Schools for the Future programme also needs to be rescued. The 2010-11 budget for the programme's capital spending is £2.3 billion.[82] The School Food Trust could also be dispensed with: saving £6 million on its 2010-11[83] budget. Schools – not government bodies – are best placed to decide how best to provide healthy food for their pupils.

Stop mission creep

Bodies with mission creep should have their wings clipped. The Training and Development Agency for Schools (TDA) has expanded its remit since replacing the Teacher Training Agency (TTA) in 2005. It has been tasked with implementing the Every Child Matters programme (a five point plan which includes ensuring that children are healthy and happy) that encroaches on the role of parents. It has also paid incentives to attract recent graduates into teaching. This is unnecessary in an era when the security of the public sector is increasingly attractive. It should abandon these functions and return to the Teacher Training Agency's original remit. This could save around £59 million.[84] Reducing the role of the TDA could be a precursor to teacher training taking place at a school level.

76 See Haldenby. A. et al (2008), *The mobile economy, Reform.*
77 Department for Children, Schools and Families (2008), *Departmental Report 2008*; Department for Innovation, Universities and Skills (2008), *Departmental Report 2008*.
78 Haldenby. A. et al (2008), *The mobile economy, Reform.*
79 Hansard (2009), Col. 183W, 9 March. Estimate based on 2009-10 annual running costs.
80 Hansard (2008), Col. 1425W, 25 November.
81 Pugh, J. (2007), "Open Source Argument", *The Guardian*.
82 Email from the Department for Children, Schools and Families, Schools Capital Division, to *Reform*, 14 April 2009. The cost of PFI credits has not been included as a saving.
83 Hansard (2008), Col. 1425W, 25 November.
84 Ibid; The Training and Development Agency for Schools (2008), *Annual report and accounts 2007-08*. The TTA had a budget of £552 million in its last year of operation. The 2010-11 TDA budget is £611 million. Returning the TDA to its original remit could therefore save a possible £59 million.

The National College for School Leadership (NCSL) – the headteacher equivalent of the TDA – could be scrapped completely (a saving of £82 million[85] on its 2010-11 budget). The NCSL was established in 2000 and has so far had a minimal impact on the supply of headteachers. The most recent headteacher recruitment survey revealed that primary schools are still struggling to attract suitable applicants. Only a slight improvement was reported in the secondary sector.[86]

Savings could also be found in higher education. The Higher Education Funding Council for England (HEFCE) should return to its principal of administering block grants for teaching and research. Other functions – including widening participation and access; teaching, learning and research; and the contribution of higher education to economy and society – are not core business of HEFCE and should no longer be provided by it. It has not been possible to calculate the potential savings of such reform for this paper.

Scrap bodies that duplicate business effort

Much of the activity carried out in training and skills duplicates that of business. The entire Train to Gain budget should be scrapped saving around £925 million.[87] As discussed in *The mobile economy,*[88] 85-90% of spending on this programme has been shown to be a deadweight cost, where industry would carry out training anyway. The ineffective Skills for Life adult training programme – which distributes qualifications that offer little value in the labour market[89] – could also be cut. This could save around £608 million in 2010-11.[90]

In the current economic climate it is also difficult to justify the £67 million that the UK Commission for Employment and Skills will spend on funding Sector Skills Councils and providing strategic advice to government in 2010-11.[91] *Reform* has previously shown that the performance of Sector Skills Councils is patchy. Government funding should be stopped and employers required to fund the bodies that they want to keep.[92] While training could be a route out of unemployment for some during an economic downturn, previous government efforts to stimulate training have been shown to be ineffective. Training must be led by individuals and employers if it is to demonstrate value for money.

Take steps to resolving student finance

Higher education has been blighted by a continual political debate about funding. Raising the cap on fees for universities and allowing universities to determine their own numbers comes at a high fiscal cost of block grant and student support. However, the failure to allow flexibility in student numbers and funding is holding back an important sector for the economy.

A positive step to balance the budget and pave the way for fee and admissions reform would be to offer student loans at market interest rates. This measure would save around £1.2 billion a year.[93] The obligation to start paying back the loan only once reaching a threshold of £15,000 earnings per annum would be maintained.

85 Hansard (2008), Col. 1425W, 25 November.
86 The Association of School and College Leaders and The National Association of Head Teachers (2008), *The State of the Labour Market for Senior Staff in Schools in England and Wales, 14th annual report, 2007-08*.
87 Learning and Skills Council (2008), *Government Investment Strategy 2009-10.* Based on the 2009-10 budget as the 2010-11 budget is not yet available, and assuming the funding will remain the same.
88 Haldenby, A. et al. (2008), *The mobile economy, Reform*.
89 Wolf, A. et al. (2006), "Certifying the workforce: economic imperative or failed social policy?", *Journal of Education Policy*, v21 n5 p.535-565, Sep 2006.
90 Learning and Skills Council (2008), *Government Investment Strategy 2009-10.* Based on the 2009-10 budget as the 2010-11 budget is not yet available, and assuming the funding will remain the same.
91 Department for Innovation, Universities and Skills (2008), *UK Commission for Employment and Skills Grant Letter: 2008-09.*
92 Haldenby. A. et al (2008), *The mobile economy, Reform.*
93 *The Times Higher Education* (2008), "Top earners gain from student loan 'subsidy' as low-paid struggle", 27 March. Currently, interest is charged at the rate of inflation only, hence student loans are interest free in real terms. The £1.2 billion saving is estimated by Nicholas Barr, Professor of Public Economics at the London School of Economics.

Higher education quangos that have no impact on the quality of education offered should be abolished such as the Office for Fair Access (£0.5 million) and Aim Higher (£69 million).[94] Both of these bodies aim to promote access to higher education for under-represented groups. But recent research indicates that a principal bar to access is the performance of UK state schools – not low aspirations.[95]

Communities and Local Government

The Department for Communities and Local Government (CLG) (developed from a subset of the Department of the Environment via the Office of the Deputy Prime Minister) has gone from a funder of local government to a vast collection of bodies designed to support every aspect of life from housing to enterprise to fire fighting.[96] Today, its £38 billion budget is the fifth largest of all government departments and around £14 billion of it is spread among a plethora of non-governmental bodies, executive agencies, charities and programmes.[97] Many of its programmes are the legacies of past Ministers' pet projects or arbitrary central government targets.[98] CLG should return to its primary mission of funding local government and housing. It should abandon its role in business support, tackling disadvantage and regional economies. This would enable greater focus to be put on reform of housing and local government finance. The savings from such reform would be expected to be around £4 billion (see Appendix 1).

Cut duplication

Much of CLG's work duplicates that of other departments specifically BERR, DWP and the Home Office. For example, the Government Equalities Office was set up in 2007 to take over responsibility for UK equalities legislation and policy and was given an annual budget of £1 million to do this.[99] Yet CLG believes that it retains "lead responsibility for the Government's policy on race inequality" and the Department continues to fund various initiatives under this remit.[100]

There is also duplication of responsibilities within CLG – for example, there is a Government Office Network made up of nine regional directors, a Regions and Communities Group (responsible for overseeing the Government Office Network), and a Communities Group.[101] This convoluted structure leads to programme duplication. For example, under the remit of tackling disadvantage, over the three years between 2008-09 and 2010-2011 the Department will fund the Supporting People programme (£5 billion), the Working Neighbourhoods Fund (£1.5 billion), the Local Enterprise Growth Initiative (£300 million), the Safer and Stronger Communities Fund (£660 million), New Deal for Communities (£257 million just in 2007-08) and the New Communities Fund.[102]

94 Aimhigher (2008), *Guidance for Aimhigher Partnerships*; Department for Innovation, Universities and Skills (2008), *Departmental Report 2008*.
95 National Audit Office (2008), *Widening Participation in Higher Education.*
96 House of Commons (2006), *The Office of the Deputy Prime Minister*, Standard Note SN/PC/04023.
97 Department for Communities and Local Government (2008), *Community, Opportunity, Prosperity: Annual Report 2008*. Following the creation of the new department in 2006 the Local and Regional Government resource budget was around £28 billion a year lower because provision of schools funding moved to the Department for Children, Schools and Families (DCSF) through its Dedicated Schools Grant, rather than through the general local government revenue settlement.
98 For example, Tony Blair's objective for the UK to become in a 10-20 year period *"a nation where no-one is seriously disadvantaged by where they live".* Cabinet Office (2001), *A New Commitment to Neighbourhood Renewal – national strategy action plan,* Social Exclusion Unit.
99 Government Equalities Office (2008), *Annual Report and Resource Accounts 2007-08.*
100 Department for Communities and Local Government (2008), *Community, Opportunity, Prosperity: Annual Report 2008*, p.118. See appendix for some examples of such CLG funded initiatives.
101 Department for Communities and Local Government (2008), *Community, Opportunity, Prosperity: Annual Report 2008*.
102 Ibid. See Appendix 3.

Streamline housing administration

Housing is the Department's second major spending area after local government. The Homes and Communities Agency is the main body responsible for social housing and public sector land.[103] But the Department supports the provision of housing-related services through a multitude of other agencies and funds. Some of these, such as the Decent Homes Programme and the Disabled Facilities Grant, deliver real benefits (although the cost and delivery method are questionable).[104] But there is doubt over the value provided by several others. For example, the complexity of the five different "HomeBuy" schemes designed to enable social tenants, key workers and other first-time buyers to get onto the housing ladder has resulted in low take-up.[105] The success of the Housing Market Renewal pathfinders in achieving their aim of altering the housing markets of particular areas remains unclear after five years.[106] The necessity of a National Tenant Voice programme to "represent the views of tenants" in government housing policy is questionable.[107]

The Department's role in housing could be slimmed down, transferring greater power and responsibility to local authorities (as has been done with the Disabled Facilities Grant to an extent), often best placed to understand the housing needs of local communities.

Increase the powers of local councils

The Department's schemes undoubtedly have good intentions, focused particularly on helping the vulnerable, and many do provide benefits. However, local councillors are often far better placed than central government to determine where the priority for spending should be, and what programmes are necessary and unnecessary. As such, much of the Department's activities should be devolved to local councils.

For example, the Supporting People programme is effective in providing services for the old and vulnerable, but it is already administered by local authorities and so could simply be added to their grants rather than centrally managed with little difficulty. The various schemes established to build cohesion, such as the Migration Impacts Forum and the National Muslim Women's Advisory Group, are marginal and should be closed. Fire services are surprisingly still run centrally and in the longer term there is potential for costs savings as well as improved services if they were devolved.

Abolish regional structures

CLG is one of six departments that fund regional structures, giving £1.6 billion annually to the nine Regional Development Agencies and £21 million to the Regional Assemblies that monitor them.[108] These bodies should be abolished for several reasons. They were decisively rejected by the voting public but were created regardless. They duplicate the role already played effectively by local councils adding an unnecessary extra layer of government. While there has been some suggestion that these bodies have generated regional economic benefits[109], it is extremely hard to measure whether they add value or not (the approach to measuring their value (input-output analysis) often assumes that the resources that they employ are free and have no alternative uses). Finally, the RDAs are sitting on a large amount of unused land – between them the RDAs expect to pay £2.2 million in empty property rates in 2009-10.[110] This land could be sold off and recycled back into local authority grants.

103 Ibid. The Homes and Communities Agency was established in December 2008, combining the functions of English Partnerships, the Housing Corporation, the Academy for Sustainable Communities and some housing and regeneration delivery roles from CLG.

104 www.homesandcommunities.co.uk; www.communities.gov.uk; Department for Communities and Local Government (2008), *Disabled Facilities Grant – The Package of Changes to Modernise the Programme*. The number of non-decent social sector homes has been reduced from 2.1 million in 1997 to 1.1 million, and in the private sector from 43 per cent of vulnerable households living in non-decent homes in 1997 to 35 per cent by 2006. The Government's 2007 review of the Disabled Facilities Grant (which helps around 35,000 people a year) found strong support for it among relevant organisations and reforms were consequently adopted transferring more responsibility and power to local authorities to run the programme.

105 See for example, Hansard (2009), Col. 1283W, 4 February: a total of just 293 completed sales under the Social Homebuy scheme since it was launched in 2006 and only 10 local authorities and 69 housing associations of the 2,000 across the country are offering the scheme. *The Times* (2008), "Government home help fails first time buyers", 20 October and Conservatives (2009), *Strong Foundations, Building Homes and Communities, Nurturing Responsibility, Policy Green Paper No.10*: some 48 per cent of people surveyed by propertyfinder.com who were eligible for the Homebuy Direct scheme had not heard of it or did not understand it.

106 National Audit Office (2006), *A Foot on the Ladder: Low Cost Home Ownership Assistance*: "However, the extent to which pathfinders' intervention itself has led to the improvement in the problems of low demand is unclear, and while intervention has improved housing conditions for some, for others it has led to heightened stress. And there is no guarantee that intervening in the housing market in this way will address the causes rather than the symptoms of the problems experienced in these neighbourhoods."

107 Due to launch this summer.

108 See Appendix 3.

109 See KPMG (2007), *Impact of RDA spending – National Report – Volume I – Main Report*, commissioned by the Department for Business, Enterprise and Regulatory Reform.

110 Hansard (2009), Col. 834W, 25 February.

Defence

Britain has the second largest defence budget in the world.[111] But too much is spent on major capital projects addressing previous strategic needs rather than on on-the-ground fighting capability. General Mike Jackson has described a situation where the "the virtual world" of Ministry of Defence planning assumptions has been overtaken by the "real world".[112]

Procuring goods and services is a core part of national defence. Of the total 2010-11 defence budget of £44.4 billion, £8.9 billion is capital.[113] As mentioned in Chapter 3, there are major issues with the long term procurement process which is often circumvented by officials using the "Urgent Operational Requirements" route.

The US has recognised similar problems in defence procurement. Defence Secretary, Robert Gates, has recently announced plans to cut pet programmes that are better matched to fighting the Cold War than current unconventional conflicts (such as Afghanistan and Iraq). His new budget halts orders for fighter jets in favour of cheap, low-tech weapons such as unmanned drones.[114]

There are several similar capital programmes that the UK could cut to make major savings or where "off-the-shelf" purchases could be made. Estimating the level of these savings is difficult given that much of the information is not made public due to commercial confidentiality – although a variety of sources in the defence sector suggest that savings in the region of over £2.5 billion could be made in 2010-2011. These savings would act as an effective platform for further reform of defence procurement.

The UK should extricate itself from Tranche 3 of the Eurofighter combat jet. It has been estimated that this will cost £3 billion.[115] Planned system upgrades and modernisation of the Eurofighter programme – that unofficial sources have estimated could cost up to an additional £5 billion[116] – should also be suspended. This could deliver a combined 2010-11 saving of £888 million.[117] Scrapping the programme to build new aircraft carriers – at a total ten year cost of £3.9 billion[118] – could deliver a 2010-11 saving of £390 million.[119] Cutting the Nimrod MRA4 programme – although it is now well advanced – would allow annual operational cost savings of £700 million to be made (1,700 uniformed and 200 civilian posts). [120]The MoD is also under pressure from the Defence Select Committee to scrap the A400M transport aircraft programme because it may "be so delayed that abandonment would be preferable."[121] This could deliver 2010-11 savings of £689 million.[122]

If necessary, some of these programmes could be replaced with relevant off-the-shelf purchases at a lower cost. This would come at a cost to the Exchequer which would reduce the savings identified above.

The future of Trident should also be considered. The estimated cost to the taxpayer will be between £15 and £20 billion. These costs will fall principally between 2012 and 2027.[123]

111 Stockholm International Peace Research Institute, www.sipri.org.
112 Sir Jackson, M. (2006), Richard Dimbleby Lecture, www.times.co.uk.
113 Ministry of Defence (2008), Defence Plan 2008-12 and www.mod.uk.
114 *Wall Street Journal* (2009), "Pentagon Pushes Weapons Cuts", 7 April.
115 Page, L. (2006), *Cost Effective Defence*.
116 House of Commons (2008), *Defence Equipment 2008: Tenth Report of Session 2007–08*.
117 *Reform* calculations. £8 billion over 9 years (assumes same timeframe as Eurofighter Tranche 1).
118 National Audit Office (2008), *Ministry of Defence: Major Projects Reports 2008.*
119 *Reform* calculations. £3.9 billion over ten years (assumes current estimate of a 2018 in-service date).
120 Page, L. (2006), *Cost Effective Defence*.
121 House of Commons (2009), *Defence Equipment 2009*.
122 National Audit Office (2008), *Ministry of Defence: Major Projects Reports 2008*. The NAO estimates that 2008-11 expenditure on A400M will be £2,068 million (current forecast cost of £2,632 million minus expenditure to March 2008 of £564 million).
123 Her Majesty's Stationary Office (2006), *The Future of the United Kingdom's Nuclear Deterrent*.

5

Work, Pensions and Health – cutting programmes and entitlements

The two largest departmental budgets have historically been the hardest to reform and have been left on the "too difficult" pile by successive governments. Discussions on pensions have been put off for fear of alienating older voters and there is a political pact to not mention the high level of health spending. However in order to achieve a step change in public spending – these areas cannot remain untouchable. Further, making cuts in the right way will not just save money – they will transform and improve the way that these services operate.

Work and Pensions

The British Government spends more on welfare and child benefits and credits (forecast at around £180 billion for 2010-11) than anything else. The bill is rising each year and is at the limits of affordability. Out of work benefits are complex and discourage work. Significant money is spent on tax credits and universal benefits that go to the non-poor. Britain's mandatory retirement age does not account for changes in life expectancy and older people's lifestyles.

In order to halt the upward trajectory of expenditure on work and pensions, administrative reductions will not be sufficient (6 per cent of expenditure administered by the Department for Work and Pensions (DWP) is used to run the Department and its programmes). Programmes and entitlements need to be pruned across the entire department, including pensions which account for 55 per cent of spending. These savings must not be arbitrary and must not penalise the poor. Instead they must take Britain along a new path where the welfare provision is a safety net rather than a long term alternative to work and where individuals take greater responsibility for providing for their own future.

Restructure pensions

The pension system needs to change to reflect the lifestyles of today's pensioners. Pensioner households are now less likely to be in poverty than other households and pensioners tend to have relatively high rates of asset ownership. Many people in their 60s, 70s and even 80s are interested in working full time, part time or flexibly.[124] Yet current government policy is predicated on the idea that the majority of people around retirement age are poor and are unable or unwilling to work.

There needs to be a change in approach that is consistent with growing demands for greater flexibility in later life. Immediate reforms will help move to this long term position, namely the abolition of the mandatory retirement age, bringing forward the increase in the retirement age, targeting a reduction in universal benefits for pensioners and simplifying the pension system for the poorest.

Abolish mandatory retirement age of 65

The mandatory retirement age should be abolished and the flexibility for hiring and firing older people should be increased. The World Bank ease of doing business survey highlighted that in the UK working hours regulations are particularly inflexible when it comes to firing costs (especially for redundancy dismissal after 20 years of continuous employment).[125] While this may increase the tenure and wages of incumbent workers, this is likely to lead to fewer jobs being created and people approaching retirement age being discouraged from investing in new skills. Abolishing mandatory retirement means that some of those claiming state benefits would delay their take up of this assistance as well as bringing extra wealth and talent to the economy.

124 Standard Life (2009), *The Death of Retirement.*
125 World Bank (2009), *Doing Business 2009*.

Bring forward increase in the qualification age for the basic state pension

Current plans to increase the qualification age for the state pension need to be speeded up. Current plans are for the retirement ages of 65 for men and 60 for women to rise to 68 between 2024 and 2046 to reflect the life expectancy of the new generation of pensioners. This report proposes shifting this increase forward to begin from 2010-11.

It is proposed that the retirement age for females will increase at the rate of 12 months for every calendar year and males by 6 months for every calendar year. At this rate the retirement age for males will reach 68 at 2015-16 and the retirement age for females will reach 68 at 2017-18. This age would apply to the basic state pension and associated add-ons (including the Second State Pension).

Based on a range of assumptions regarding the average level of the basic state pension, this change would save around £95 million in the 2010-11 year, increasing to around £190 million in 2011-12. These estimates are conservative as they do not include savings from reduced payments of associated programmes, such as the Second State Pension, or any increase in tax revenue from increased labour participation.

Remove gimmicky pension add-ons

Gimmicks such as the TV license fee for the over 75s (£0.5 billion) and the winter fuel payment (£2.7 billion) are not targeted to the poorest pensioners. The recommendation is that these add-ons should be abolished, and where necessary assistance for heating costs could be available to poor pensioners on a targeted basis (such as by only being paid to recipients of the Pension Credit). Other pensioner benefits such as income support and minimum income guarantee should also be simplified.

Simplify out of work benefits

British welfare policy has been shown to discourage work and trap people in benefits through the complexity of the system.[126] However, it would be myopic to cut the level of benefits without providing support to get people into work as this would risk creating a legacy of long-term unemployment. Therefore the basic level should not be changed. There is, however, scope for simplifying add-on schemes, such as Christmas bonuses, which together conservatively account for £400 million.[127] Other schemes such as job grants and mobility allowances could be rolled into larger and existing programmes.

Target child benefit

The concept of insurance in the state welfare system has been effectively abandoned, with most middle and high earning families providing for themselves. The universal child benefit is one of the last vestiges of a previous age[128] and comes at a substantial cost to the taxpayer. These costs not only include direct fiscal costs, but also the economic and administrative costs of tax burdens having to be higher than otherwise.

Many countries have already shifted towards targeting (Australia and New Zealand) or taxing child benefits (Ireland).[129] Therefore, the recommendation is that Child benefit should be means tested and rolled into the Family Element and Child Tax Credit. The Child Tax Credit is already widely received among those families in most need of assistance. Removing the universal Child Benefit would save £10.8 billion (prior to the cost of increasing the Family Element and Child Tax Credit, which could cost in the order of £4-5 billion).[130]

In addition the IFS estimated that tapering the family element of the tax credit would save approximately £1.35 billion.[131]. With the saved expenditure on the universal Child Benefit proposed in this report, total savings would be in the order of £12.15 billion (or £7.15 billion after allowing for a £5 billion increase in the Family Element and Child Tax Credit to address child poverty concerns).

126 Bosanquet, N. et al. (2008), *Shifting the unequal state: from public apathy to personal capability*, *Reform*.
127 Possible areas of savings (based on forecast expenditure for 2010-11) include the Christmas Bonuses (contributions based, £133 million), Christmas Bonuses (non-contributory, £21 million), Industrial Death Benefit (£31 million) and other Industrial Injuries Benefits (£1 million), New Deal for Young People (£80 million) and New Deal 25 Plus Allowances (£81 million), and Return to Work and In Work Credits (£165 million). Other savings could be made through redesigning housing assistance (options include reducing duplication of administration and revising the degree to which assistance varies among regions).
128 Greener, K. (1998), “Child Benefit”, Research Paper 98/79, *House of Commons Library*, p.16.
129 Nolan, P. (2006), “Tax Relief for Breadwinners of Caregivers? The Designs of Earned and Child Tax Credits in Five Anglo-American Countries”, *Journal of Comparative Policy Analysis*, Vol. 8, No. 2, pp. 167 – 183.
130 A selection of options for increasing the Family Element and Child Tax Credit were modelled in Brewer, M. et al. (2008), “Options for Tax Credit Reform”, *Institute for Fiscal Studies*.
131 Ibid.

Health

The Government argued that extra NHS spending would support reform and as a consequence doubled the budget between 1999-00 and 2007-08. In fact it has had the opposite effect. It has insulated managers from the need to address costs. It has increased the costs of existing staff and infrastructure, making change more difficult. More specifically, it has targeted resources on hospital activity, which is the most expensive element of any health systems' budget. The current reform programme has the potential to transform the productivity of the service but has been hampered by the lack of financial necessity to do anything in the face of vested interests.[132]

There has been some downward pressure on the budget. Numbers of staff have stabilised, pay awards have reduced to around or below inflation and the NHS capital programme has been reduced by £4.4 billion. It is widely expected within the service that there will be a reduction in real terms budgets in coming years, most likely in the financial year 2011-12. However the level of reduction is not significant enough to force real change.

Important consideration needs to be given to how to achieve a genuine cost reduction. If the focus is only on top-line measures, such as a reduction in the tariff for hospital operations, NHS organisations would make a typical monopoly response of reducing services, for example by letting waiting times rise, rather than increasing efficiency. A blanket percentage reduction in staff is also likely to provoke the wrong response.[133] Trusts would be tempted to reduce the numbers of managers and non-clinical staff, just when effective management is most needed.

Instead, specific changes should be made to the pay of staff, the charges paid by users, the capital programme and the organisational structure. The changes that could be made would accelerate the process of reform.

Re-open pay negotiations

In its authoritative review of NHS finances, authors at the King's Fund pointed out that pay in the NHS outstripped pay in the whole economy by around 15 per cent between 2002 and 2007.[134] The Doctors Pay Review Body has announced a reduced pay increase of 1.5 per cent in cash terms for 2009-10 explicitly recognising the new attractiveness of employment in the public sector against the private sector.[135]

NHS pay is difficult to tackle given the lack of evidence of the actual workload of staff.[136] But the weight of evidence suggests that it is higher paid members of staff – i.e. registrars, consultants, GPs and managers – who have seen pay increases that are least in line with productivity gains.[137] Consultants are the clearest example –the latest consultant contract has increased annual earnings by £17,500, to £119,400, compared to the old contract.[138]

The total pay bill of these groups is £13 billion. A 10 per cent reduction in these salaries would therefore save £1.3 billion. It would aid future reform by establishing the idea that pay should follow productivity.

In practice the Government would need to reopen negotiations with NHS staff for the year 2009-10. For doctors, it would mean reopening the negotiations which completed on 31 March 2009. For managers, it would mean reopening the three year deal which began in 2008-09, has its middle year in 2009-10 and its final year in 2010-11.

132 Bosanquet, N. et al.(2008), NHS reform – national mantra, not local reality, *Reform*.
133 Bassett, D. et al. (2008), *The hole we're in and how to get out of it*, *Reform*: "Crisis cuts in public spending advocated by some would also be a bad solution. They increase inefficiencies, by prompting the loss of experienced and capable staff. They are also self-defeating. As the experience of the mid-1990s showed, electorates react to perceived under-funding of the public sector by supporting higher spending later on."
134 Wanless, D. (2002), *Securing Our Future Health: Taking a Long-Term View,* HM Treasury; Wanless, D. et al (2007), *Our Future Health Secured? A Review of NHS Funding and Performance, King's Fund.* "Actual pay rises between 2002 and 2007 are difficult to estimate for all sectors of the NHS due to a recent discontinuity in official pay inflation measures for GPs. However, for hospital and community health services staff (making up around 90 per cent of all NHS staff) pay has increased by around 30 per cent between 2002 and 2007 – a real rise of around 15 per cent. Over this period, average earnings in the economy as a whole rose by a more modest 17 per cent in cash terms."
135 Review Body on Doctors' and Dentists' Remuneration (2009), *Thirty-Eighth Report 2009.* "The rapid shift in the state of the economy over the recent past and the prospects for the immediate future significantly affect the relative position of our remit groups. The economic downturn has already had quite severe consequences for employment and job security across the private sector. Employment in the public sector has therefore become more attractive, combining a high degree of job security with a state-backed, defined benefit pension."
136 NHS Pay Review Body (2008), *Twenty-Third Report 2008,* Cm 7337.
137 NHS Information Centre, www.ic.nhs.uk. Each of these staff groups earn over £50,000 on average. 2007-08: average consultant earnings, c.£120,000. Average registrar earnings: c.£57,00. Average manager earnings: c.£60,000. 2005-06. Average GP earnings: c.£120,000.
138 Ibid.

Cut capital programme

The investment in hospital infrastructure that Reform said "leaves Britain building more hospitals than the rest of the G7 nations put together"[139] runs counter to the aim of reorienting NHS services towards primary care. The 2006 Government review of hospital building programmes resulted in a reduction of £4.4 billion in the planned capital programme.[140] That programme of capital expenditure should be expected to continue. Despite the reductions already achieved, NHS capital expenditure will reach record levels in 2010-11.

Figure 6: NHS capital expenditure, 1998-99 – 2010-11
Source: Department of Health (2008), *Public Expenditure on Health and Social Services – Memorandum received from the Department of Health containing Replies to a Written Questionnaire from the Committee,* 13 November.

	NHS capital expenditure (£ billion)
1998-99	1.5
1999-00	1.9
2000-01	2.5
2001-02	2.6
2002-03	2.9
2003-04	3.4
2004-05	3.9
2005-06	4.1
2006-07	5.4
2007-08	5.4
2008-09 (plan)	6.3
2009-10 (plan)	7.0
2010-11 (plan)	7.4

The NHS has already shown that it is able to identify the least attractive capital projects and cancel them. Capital expenditure should return to the levels of 2006-07 and 2007-08, before the financial crisis arose, a saving of £2 billion per year compared to current plans.

139 Bosanquet, N. et al. (2006), *Investment in the NHS – facing up to the reform agenda*, *Reform*.
140 Department of Health (2008), *Public Expenditure on Health and Social Services – Memorandum received from the Department of Health containing Replies to a Written Questionnaire from the Committee*, 13 November. The Department reported reductions in the capital programme of £0.6 billion in 2006 and 2007; of a further £2 billion in 2007; of £1 billion in 2008; and a further reduction of £0.8 billion "as a result of local reviews".

End public health campaigns

Reform's recent public health research recommended cancelling spending on national public health advertising campaigns. The finding of the research is that incentives – in particular market incentives for both employers and individuals – are more effective now and will become more so in the future. The actual saving on Departmental national public health campaigns in 2009-10 would be around £45 million.[141]

Abolish Strategic Health Authorities

Strategic Health Authorities were created in 2001 and it is difficult to ascribe value to their activity. Any positive activity that they are currently undertaking, such as researching the development of regional NHS markets, should be undertaken by Primary Care Trusts as part of their ongoing work. Fewer organisations will help the NHS run more efficiently and drive reform. The budget for the administration of Strategic Health Authorities in 2009-10 is around £220 million.[142]

Introduce user charges for GPs

Britain is virtually unique in having no charge to visit a GP. As the cost of visits fall to the taxpayer, patients have an incentive to visit the doctor for even minor ailments or miss appointments, creating opportunity costs that affect everyone (GPs spending much of their time distributing flu remedies rather than addressing genuinely unwell people). User charges should be introduced and there should be greater reliance upon other health professionals (such as nursing staff and pharmacists) for treating less serious ailments. To reduce the risk that high need people do not receive necessary treatment high-need populations (such as children under 5 and people older than 65) could be exempted from the requirement to face user charges.

The introduction of user charges could save the NHS money (after accounting for any additional administration and other costs) in two ways. First, revenue would be generated that could be used to fund other parts of the health system (more of GPs salaries would be obtained from patients and less from the public purse). Second, the introduction of user charges would lead to a reduction in demand, which would, in turn save the NHS the costs of providing unnecessary services. These two areas of cost savings have been estimated to account for £1.35 billion (revenue from charges) and £0.29 billion (cost savings from reduced demand).[143]

141 Department of Health (2008), *Departmental Report 2008 – The Health and Personal Social Services Programmes*, Cm 7393, figures E.2, E.3.
142 *Reform* calculations.
143 Office for National Statistics (2006). *Focus on Health: 2006 Edition*, Palgrave McMillan and *Reform* calculations. These preliminary estimates assume that there are no charges for GP visits for children (0 to 5) and for people 65 and over, those people who face charges face a flat fee of £10, demand for GP visits reduces by 10 per cent among those people who face this fee, and the total cost to the NHS of a visit to a GP of £20. Data on average number of NHS GP consultations per person drawn from ONS figures.

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Appendix 1

Summary of savings

Reform estimates of the savings from the policy changes recommended in this report are contained in the tables below. Given data constraints it has not been possible to undertake costings for some options and thus the total saved is likely to be conservative. Developing these estimates (as with any estimation of cost savings of this kind) has required making a number of modelling assumptions, as noted in the tables below and discussed in the report itself. More detailed modelling approaches could be employed as part of the process of further developing and designing the reforms recommended in this report.

Whitehall

Figure 7: Summary of Whitehall savings
Sources: See chapter three

Policy area	Savings in Budget 2010-11 (million)
Freeze civil service salaries	£169
Award no civil service bonuses	£25
Introduce a four day week (based on 10% participation)	£200
Total savings	£394

Work and Pensions

Figure 8: Summary of work and pension savings
Sources: See chapter five

Policy area	Savings in Budget 2010-11 (million)
Bring forward increase in the qualification age for the basic state pension	£95
Remove pension add-ons	£3,200
Simplify out of work benefits	£400
Remove universal Child Benefit	£10,800
Tapering the Family Element	£1,350
Increase targeted assistance to address poverty	(£5,000)
Total savings	£10,845

Health

Figure 9: Summary of health savings
Sources: See chapter five

Policy area	Savings in Budget 2010-11 (million)
Reduce doctors' and NHS managers' pay by 10 per cent	£1,300
Cut capital programme	£2,000
Abolish public health advertising campaigns	£45
Abolish Strategic Health Authorities	£220
Introduce user charges for GPs	£1,640
Total savings	£5,205

Education

Figure 10: Summary of education savings[1]
Sources: See chapter four

Policy area	Savings in Budget 2010-11 (million)
Cut subsidy to student loans	£1,200
Scrap Becta, the National College for School Leadership and the School Food Trust	£99
Scrap Skills for Life	£608[2]
Scrap Train to Gain	£925[2]
Scrap Building Schools for the Future	£2,300
Scrap ContactPoint	£44
Streamline the Teacher and Development Agency for Schools	£59
Scrap the UK Commission for Employment and Skills	£67
Scrap Aim Higher and OFFA	£70
Total savings	£5,372

Notes:
1 Based on the combined budgets of the Department for Children, Schools and Families (£71,637 million) and the Department for Innovation, Universities and Skills (£26,227 million).
2 Estimate based on 2009-10 budgets. 2010-11 budgets not yet agreed.

Defence

Figure 11: Summary of defence savings
Sources: See chapter four

Policy area	Savings in Budget 2010-11 (million)
Scrap Future Carriers	£390
Scrap Eurofighter Tranche 3 and upgrade	£888
Scrap A400M	£689
Scrap Nimrod MRA4	£700
Total savings	£2,667

Communities and Local Government[1]

Figure 12: Summary of Communities and Local Government savings
Source: Department for Communities and Local Government (2008), *Community, Opportunity, Prosperity: Annual Report 2008;* Department for Communities and Local Government (2008), *Disabled Facilities Grant – The Package of Changes to Modernise the Programme.*

Policy area	Reform Budget 2010-11 (million)
Local Government (Revenue Support Grant and National Non-Domestic Rates)	£24,700
Homes and Communities Agency (formed December 2008)	£5,800[2]
Supporting People programme	£1,600[2]
Decent Homes programme	£1,200[2]
Arms Length Management Organisations	£925[3]
Tenants Services Authority	£5[4]
Disabled Facilities Grant programme	£166
Fire Services	£193[3]
Total savings	£4,400[5]

Notes:
1 Given the difficulty in obtaining figures of all CLG spending figures and the large number of initiatives proposed to be abolished, we have taken the approach of including the programmes that would be kept only and estimating total savings as the difference between the new budget and the current budget.
2 Estimate based on one third of the total funding over the period 2008-09 to 2010-11.
3 Estimate based on spending being equal to total spending in 2007-08. Fire services includes spending on Fire and Rescue Services, Firelink and Fire Regional Control Room Projects.
4 Estimate based on spending being equal to total spending in 2009-10.
5 Further savings would be expected from the corresponding governance structures in CLG for closed or devolved activities and by the longer-term proposal to devolve some of the above activities to the local level.

Appendix 2

Spending by department under current Government plans, £ billion

Sources: Figures are estimated from HM Treasury (2008), Public Expenditure Statistical Analyses 2008 and total departmental spending figures from individual departmental reports and website. Northern Ireland Executive figures are estimated from PESA 2008 resource budget plus capital budget.

	2008-09	2009-10	2010-11
Department for Work and Pensions	138.9	144.2	149.4
Department of Health	111.8	119.3	127.3
Department for Children, Schools and Families	63.9	67.1	71.6
Ministry of Defence	40.1	42.5	44.4
Department for Communities and Local Government	36.5	37.9	39.0
HM Revenue and Customs	34.1	36.8	37.5
Scotland Office	27.6	28.7	30.2
Department for Innovation, Universities and Skills	23.2	24.8	26.2
Northern Ireland Executive	17.6	18.6	19.6
Department for Transport	16.2	16.8	17.7
Wales Office	14.6	15.3	16.1
Home Office	10.3	10.5	11.0
Ministry of Justice	9.6	9.6	9.6
Cabinet Office	7.6	7.9	8.2
Department for International Development	6.1	7.0	8.1
Department for Culture, Media and Sport	7.1	6.7	7.0
Department for Environment, Food and Rural Affairs	3.7	3.8	3.9
Department for Business, Enterprise and Regulatory Reform[1]	8.7	9.0	9.4
Foreign and Commonwealth Office	1.9	1.7	1.7
Northern Ireland Office	1.4	1.4	1.4
HM Treasury	14.3[2]	0.3	0.3
Law Officers' Departments	0.7	0.6	0.6
Other	7.0	19.8	21.8
Total expenditure on services[3]	**602.9**	**630.3**	**662.0**

Notes:
1 An additional £6.3 billion has been added to the total departmental spending figures published in BERR's 2007-08 annual report and accounts to reflect the recognition of nuclear decommissioning provisions by the NDA not available at the time of publication. This estimate is based on total assets and liabilities in 2007-08.
2 Includes £14 billion in relation to Northern Rock financing.
3 Total expenditure on services excludes accounting adjustments to get to Total Managed Expenditure.

Appendix 3

Illustration of current Department of Communities and Local Government spending, million
Source: Department for Communities and Local Government (2008), *Community, Opportunity, Prosperity: Annual Report 2008,* and www.communities.gov.uk.

	Remit	Annual expenditure	Period
Local Government (Revenue Support Grant and National Non-Domestic Rates)	Local Government	£23,409	2008-09
Homes and Communities Agency (formed December 2008)	Housing and regeneration	c.£5,000	£17.3bn over 3 years to 2011
Supporting People programme	Housing-related services for vulnerable people	£1,741	2007-08, plus further £4.96bn over next 3 years
Decent Homes programme	Housing	£1,133	£3.4bn over next 3 years
Regional Development Agencies	Regions	£1,600	2007-08
Regional Assemblies	Regions	£21.4	2007-08
Sub-National Review (with BERR)	Regional economies		
Arms Length Management Organisations	Housing	£925	2007-08
Working Neighbourhoods Fund (launched December 2007 jointly with DWP replacing Neighbourhood Renewal Fund)	Worklessness	c.£500	£1.5bn over 3 years to 2011
Local Area Agreements	Local Government	£749	2007-08
Regional Housing Pots	Housing	£437	2007-08
HomeBuy schemes	Housing	c.£1,000	2006-08
Housing Market Renewal Fund	Housing	£404	2007-08, with further £1.04bn next 3 years
Local Enterprise Growth Initiative	Enterprise(Such as business start ups)	£100	2007-08, with total £300 over CSR07
Safer and Stronger Communities Fund	Neighbourhood-based initiatives (very general)	£128	2007-08, with total £660m over 3 years
Disabled Facilities Grant programme	Housing (for disabled)	£146	2008-09
Growth Points (second round)	Housing	c.£100	£300m over 3 years
Growth Areas (incl Thames Gateway)	Housing and regeneration	c.£430	2008-09
Cleaner Safer Greener Communities Programme	Quality spaces to live in		
Civil Resilience projects	Fire	£59	2007-08
Neighbourhood Management Pathfinders	Testing customer satisfaction	c.£5.7	Annually[1]
New Deal for Communities (through around 40 partnerships)	Tackling disadvantage	£257	2007-08
New Communities Fund (announced December 2007)	Redevelopment of housing		
Cross-departmental working group on coastal towns (new)	Coastal towns		

	Remit	Annual expenditure	Period
Gap funding (grants to private developers and housing associations)	Housing and regeneration	£83	2007-08
Regeneration of East Manchester Ministerial Group	Alternatives to casino-led regeneration		Met only 3 times in first year
Rough Sleeping Strategy	Homelessness	£200	
Places of Change Programme	Homelessness	£70 (capital)	Over 3 years
Adults facing Chronic Exclusion (ACE) programme (with DoH, HO, DWP)	Social exclusion	c.£0.5	£1.5 over 3 years
Strategic Economic Investment Fund (joint fund with EEDA, LDA and SEEDA)	Regeneration (of Thames Gateway)	c.£27	£80m over 3 years
Eco-Towns	Housing	£3	To date (since 2007)
Home Information Packs (HIPs)	Housing	c.£3.28	£8.2m April 2004 to Sept 06
Community Infrastructure Fund (joint with DfT)	Transport infrastructure	£50	Total of £200 over 3 years
Tenants Services Authority (created October 2007)	Housing (social housing regulator)	£5	2009-10
National Tenant Voice (due to launch summer 2009)	Housing	£1.5	Annually
Infrastructure Planning Commission (being introduced under 2008 Planning Act)	Infrastructure	£12.8	Then £8.8m annually
Promotion community cohesion and management community tensions (invested through a range of funds and programmes)	Cohesion	c.£17	£50m over 3 years
Migration Impacts Forum (established June 2007 with Home Office)	Cohesion		
Preventing Violent Extremism Pathfinder fund	Cohesion	c.£25.3	£76m over CSR07 period
Community Leadership Fund	Cohesion	£1.1	2008-09
National Muslim Women's Advisory Group (launched January 2008)	Cohesion	£0.19	2008-09
Black Boys' National Role Model programme	Equality		
Fire and Rescue Service	Fire	£85	2007-08
Firelink	Fire	£26	2007-08
Fire Regional Control Room projects	Fire	£85	2007-08
Social HomeBuy scheme	Housing	£14	2006-08
Accommodation needs of Gypsies and Travellers	Equality and cohesion	c.£32.3	£97m 3 years 2008-09 to 2010-11
Third sector support	Active citizens	£100	

Notes:
Where available data is for spending over a period of more than one year, annual expenditure has been estimated on a time apportioned basis.
1 Based on start up £200k plus £350k annual funds for 7 years for 15 Round 2 Pathfinders.

Glossary of terms

Aimhigher Partnerships
The Aimhigher programme aims to improve participation in higher education by raising the awareness, aspirations and attainment of young people from under-represented groups.

British Educational Communications and Technology Agency (Becta)
Becta is the lead agency in supporting the implementation and improvement of information and communication technology in education.

Building Schools for the Future (BSF)
Building Schools for the Future is an investment programme to rebuild and renew school buildings in England. The project is funded by both capital funding and private finance initiatives, and is overseen by Partnerships for Schools.

Contact Point
Contact Point is an online directory providing authorised users with access to information relating to children to allow for the coordination of support services.

Decent Homes Programme
The Decent Homes Programme was created to improve the quality of social housing in England by providing criteria on a decent standard of housing and providing funding for improvements.

Department for Innovation, Universities and Skills (DIUS)
The Department is responsible for adult learning, further and higher education, skills, science and innovation.

Department for Children, Schools and Families (DCSF)
The Department is responsible for all issues affecting people up to the age of 19 including education.

Department for Communities and Local Government (CLG)
The Department is responsible for setting policy on local government, housing, planning, social exclusion, sustainable development, regeneration and neighbourhood renewal.

Department for Work and Pensions (DWP)
The Department is responsible for the government's welfare reform agenda; delivering support and advice to people of working age, employers, disabled people, pensioners, families and children.

Department for Business, Enterprise and Regulatory Reform (BERR)
The Department is responsible for company law, trade, business growth, employment law, regional economic development and consumer law.

Government Equalities Office
The Government Equalities Office is responsible for determining and directing the Government's overall strategy on equality issues.

Higher Education Funding Council for England (HEFCE)
The Higher Education Funding Council for England (HEFCE) distributes public money for teaching and research to universities and colleges.

Homes and Communities Agency
The Home and Communities Agency is responsible for funding social housing and regeneration projects in England.

Housing Market Renewal Fund
The Fund is used to finance capital investment in the housing market and support infrastructure projects.

Learning and Skills Council (LSC)
The LSC is responsible for planning and funding high quality education and training for everyone in England other than those in universities.

The Learning and Skills Improvement Service (LSIS)
The Learning and Skills Improvement Service (LSIS) is the body dedicated to the development of the FE and skills sector. It is a sector owned body.

The Local Enterprise Growth Initiative (LEGI)
The LEGI is responsible for delivering funding to stimulate economic growth, help raise entrepreneurial activity and encourage investment in England's most deprive areas.

National College for School Leadership (NCSL)
The National College for School Leadership (NCSL) is responsible for developing leadership in England's 23,000 state schools.

National Institute of Adult Continuing Education (NIE)
The NIE is a non-governmental organisation to promote the study and general advancement of adult continuing education and support an increase in the total numbers of adults engaged in formal and informal learning in England and Wales.

National Tenant Voice
National Tenant Voice was created to ensure that the views of tenants were represented during government decision making on housing strategies.

New Deal for Communities (NDC)
The New Deal for Communities was established in 1998 and is responsible for local regeneration across England. The scheme provides funding for innovative regeneration projects involving major service providers and stakeholders in deprived communities.

Office for Fair Access (Offa)
The Office for Fair Access is responsible for ensuring that universities and colleges that charge top up fees have acceptable plans to promote equitable access for undergraduate programmes.

Partnerships for Schools
Partnerships for Schools aims to develop public private partnerships to deliver the Building Schools for the Future programme and the construction of City Academies.

Regional Development Agencies (RDAS)
The mission of the RDAs is to spread economic prosperity and opportunity in the nine regions of England.

Research Councils
Research Councils are the public bodies charged with investing tax payer's money in science and research in the UK.

Safer and Stronger Communities Fund
The Fund brings together funding streams from both the Home Office and Department of Communities and Local Government to support innovative projects to help tackle crime, anti-social behaviour and empower communities.

School Food Trust
The School Food Trust is responsible for providing support and advice to schools and parents to raise the standards of schools meals and improve foods skills and awareness of nutrition amongst children.

Sector Skills Councils (SSCs)
There are 25 SSCs, each covering a specific sector and operating across the UK. Each is an employer-led, independent organisation, licensed by the Secretary of State for Education and Skills, in consultation with Ministers in Scotland, Wales and Northern Ireland.

Skills for Life
Skills for Life was launched in 2001 as a national strategy in England to improve basic skills of adults through providing funded qualifications in literacy, numeracy and English language for foreign speakers.

Supporting People Programme
The Supporting People Programme aims to redirect funding for services to assist vulnerable people to live independently and encourage services to become more sensitive to local needs.

Training and Development Agency for Schools (TDA)
The TDA's remit includes: maintaining demand for initial teacher training from potential recruits through marketing and a teaching information line; inspection of training, accreditation of providers and allocation of training places; funding training for teachers, teaching assistants, school business managers and bursars; and the framework for professional and occupational standards for the school workforce.

Train to Gain
Train to Gain was created to raise the skills proficiency of the UK workforce by providing support to businesses in gaining benefits of further education and training for their employees.

UK Commission for Employment & Skills (UK CES)
The UK CES operates across the UK with the goal of raising the UK's skills base, improving productivity and competitiveness, increasing employment and making a contribution to a fairer society.

Union Learn
Union Learn aims to help unions encourage lifelong learning among members and provides details of courses and information about representative training as well as a research and strategy section.

Working Neighbourhoods Fund
Created in 2007 to help the long term unemployed in the most disadvantaged communities back into work through supporting local authorities develop community-led approaches to tackle worklessness.

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