

# The Renewal of Government



A manifesto for whoever  
wins the election

Neil O'Brien and Ross Clark



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By Neil O'Brien and Ross Clark

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## About the Authors

**Neil O'Brien** is the Director of Policy Exchange. He was previously director of Open Europe, a cross-party think tank working for free market reform in Europe.

Neil grew up in Huddersfield, West Yorkshire, and took a first in Politics, Philosophy and Economics, at Christ Church, Oxford. His interests include economic reform and social policy.

**Ross Clark** is a columnist for The Times, The Daily Express and the Mail on Sunday, and a leader writer for The Spectator.

He is also the author of *How to Label a Goat: the silly rules and regulations that are strangling Britain* (Harriman House, 2006) and *The Road to Southend Pier: one man's struggle against the surveillance society* (Harriman House, 2007).

## Foreword – by Simon Wolfson

Neil O'Brien and Ross Clark have written an important book. It endeavours to think about government policy outside the confines of today's narrow political debate. It displays intellectual rigour, innovative thought and political courage and creates a set of ideas that politicians of all parties should consider for inclusion in their manifestos.

In recent years we seem to have lost sight of the proper role of the state in Britain. This has led to a loss of focus: the traditional, core functions of government are neglected while the Government pursues a panoply of intrusive, meddling and largely ineffective initiatives. From the absurd excesses of health and safety legislation to advertising campaigns which treat people like children, they seem to think there is no part of our lives that cannot benefit from the heavy hand of state intervention. Indeed, laughing off silly rules and regulations has become a national pastime.

There is a huge economic cost in having a hyperactive, interventionist, and regulatory government – in fact new regulations have cost us £150 billion since the government started counting. Just one regulation has cost the NHS the equivalent of an extra 5,400 doctors. But the real cost is the debilitating affect on society. When charities are shut down by the burden of bureaucracy, or teachers ask children to wear goggles to play conkers, we see the dangers of creating a submissive, risk-averse culture. We end up with a society that expects the authorities to protect them from every danger, and in doing so we slowly, subconsciously, surrender individual responsibility to an all-knowing state.

In recent times politicians of all persuasions have increasingly presented themselves as a mixture of social architect and social doctor. They feel the need to be the solution to all society's failings. But government cannot solve all of our problems. And when it pretends that it can regulate its way to a perfect

society, it stops focusing on its real role – to provide a basic framework in which society can function.

This book argues that the state should be smaller, and certainly less intrusive – but in some ways actually stronger. A strong government doesn't indulge in knee-jerk reaction to today's headlines. A strong government doesn't get bogged down in special pleading from interest groups. And a strong government doesn't tiptoe around obvious problems.

For years people on the centre-right have pessimistically assumed that the problems of the public sector cannot be solved. So the strategy has been to "go around" these problems: to privatise, contract out, or introduce competition through quasi-market structures. Many of these policies are sensible and should be taken further. But we have avoided tackling the underlying issues – the reasons why the public sector is underperforming. As a result there is still a large chunk of our economy that more closely resembles the Britain of the 1970s than Britain in 2010: a lost world of strikes, absenteeism, falling productivity, and low morale.

So it's time to directly confront the underlying causes of poor public sector performance: the lack of a link between performance, pay and promotion; national pay bargaining; excessively powerful trade unions; a profusion of costly and distracting secondary objectives and absurd processes for recruitment and dismissal that make it almost impossible to root out weak performers and raise productivity. Most importantly of all, Whitehall has undermined the independence of action, discretion and initiative of its employees through an ever increasing set of rules, targets and guidelines.

Over the last decade politicians have tried to improve the performance of public services by imposing targets followed up by inspections, and by setting up new quangos to "drive up standards". This has the seeming advantage for politicians of allowing them to hold others to account but avoid being held accountable themselves. If there is a problem, it is the fault of the quango, or the inspector should have spotted it.

Meanwhile workers in public services have been treated to a blizzard of time-consuming new initiatives from the centre, as ministers rapidly shuffle around between different departments. All of this serves to debilitate public sector managers – it puts a premium on complying with the letter of the rules, passing the inspection, and "not screwing up". It discourages risk-taking and innovation. Inspection might identify the very weakest performers (sometimes). But it will not help average performers to get better. It is a system designed to minimise and punish mistakes rather than maximise and reward success.

In Britain at the moment it seems like freedom has dropped out of our political discourse. We have been through a long period of policies which encourage dependency and treat people like children. But these policies have failed. I predict that at some point soon freedom and responsibility are going to come back into fashion. This book shows what that would mean.

But this book does not just deal with how the state can reduce its role, it also argues that the state can use its economic power to boost growth and help unleash the creative energy of an economy that is often held back by Luddite policies. Ross and Neil argue that if we are to be successful in tackling our country's deep rooted economic problems then the next government must be unashamedly pro-growth.

We must staunch the flow of regulation, make it easier and cheaper to build, and reduce the cost of energy and climate policies. We need to sort out our schools and universities and break the anti-work, anti-achievement culture which squashes people's aspirations and opportunities. We need bold reforms that will help people currently trapped on benefits escape into work. And we need to free the public sector – now a huge part of our economy – from the bureaucratic burdens and mismanagement it is currently labouring under.

In recommending this book to you I must warn you that you are unlikely to agree with all the ideas that Ross and Neil advance, but I hope that their work will serve to stimulate thought outside the narrow confines of today's political debate. They have realised that real change requires real controversy and have not baulked at that challenge. In advancing their ideas they have displayed a rare quality in the politics of our time – courage.

*Simon Wolfson is Chief Executive of Next PLC and a Trustee of Policy Exchange*

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# Introduction and Outline

This book is a short analysis of the many issues facing Britain today. It recommends a root-and-branch reform of public policy, and shows in detail how to implement it.

We begin Chapter 1 with a review of recent history. Many people believe that Britain underwent a revolution under Mrs Thatcher, and in some ways it did, with private sector trade unions tamed and state-owned companies sold off. But in other ways Britain did not change. Life in the public sector still looks a lot like life in 1970s Britain, with strikes and falling productivity. While the state owns less, government spending as a share of national income is now higher than in 1979, and the state regulates and controls far more.

Chapter 2 looks at the philosophy of government. It argues that the Government over-reacts to risk and fails to treat people like adults. We argue that “society” exists, but is meaningless unless the Government trusts individuals and communities more to solve their own problems. There is huge untapped potential that could be unlocked if we gave people the freedom and incentives to improve their lives. We have need to return to the idea of limited and focused government.

After this analysis we turn to look at practical reforms.

First we examine the legal system and the “culture of rights”. In Chapter 3 we look at what’s gone wrong with the European Court of Human Rights, the personal claims industry, and discrimination legislation.

Chapter 4 examines the principles of public service delivery. We show why central targets and inspectorates fail to improve standards. We look at charging, personal budgets, and choice in public service as tools to drive up standards. We conclude that getting the right structures in place is essential: there is no point trying to hold public service managers to account unless they are given the freedom to manage, and the powers they need

to improve delivery. And accountability cuts both ways: we must stop the rapid turnover of ministers and the use of quangos to shield politicians from accountability.

The public sector is the topic of Chapter 5. We show why we should phase out national pay bargaining, and automatic promotion up national salary scales, as Sweden already has. We argue that pay and promotion should be tied to performance and should be at the discretion of local managers. We also look at specific problems with public sector pensions, poor industrial relations, the multitude of distracting secondary objectives loaded onto the sector, and the rigid processes for hiring and firing which hold back performance.

Next we move on to specific public services.

Turning to the criminal justice system in Chapter 6, we argue that the police must raise their productivity: by outsourcing non-core tasks, encouraging forces to co-operate more, ending early retirement, and ending the national ban on solo patrolling. Police bureaucracy like “stop and account” forms, should be abolished. We should dismantle the target regime and go back to electing police commissioners. Much more effort needs to go into reintegrating prisoners into the community. The prison system and prison governors should be held accountable for reoffending. Reoffending statistics should be published for each prison. And we can change the way the courts work to help solve problems and prevent crime.

Chapter 7 deals with schools. School choice appears to have led to dramatic improvements in other countries. It should be introduced in the UK with schools granted wide-ranging freedoms. We look at reforming teacher training so that it is less abstract and more focused on on-the-job training, and argue that teachers and schools should be given the authority to enforce discipline. We argue that the switch to a department for “Children, Schools and Families” has led to a loss of focus on education. The flood of new initiatives distracts schools from their main purpose. It must stop.

We also need to set our universities free, and create a proper market in higher education. But Chapter 8 argues that just putting up fees won’t be enough. If we want students to pay more they need access to dependable information with which to make choices about where to study. Universities must be made to publish their data on job prospects, salary levels, contact hours and class sizes. This will enable students to make rational decisions about the costs and benefits of taking different courses. We should also encourage part-time students, and pay for this “second chance” by cutting back programmes which attempt to use universities as urban regeneration tools.

We give our health service a check up in Chapter 9. Costs have spiralled, and we explore ways to improve productivity. We should link salaries to performance not seniority, and restore control over pay. We argue that we should strip back the excessive target-setting system. Instead, we should make the internal market work properly, basing decisions on their real costs, and so give clinicians incentives to save money. Likewise we explore how we could give people a choice of GP, and thereby create pressures for improvement in primary care.

Chapter 10 explores our complicated and dysfunctional welfare system. We propose a clear set of principles for reform and then go on to examine specific benefits. We argue for a “right to move” in social housing, to allow people to move to find work. We look at ways to reform housing benefit, illness benefits and tax credits. We look at the role of “conditionality” – what we require from people in return for their benefits. We argue that the tax/benefit system should support rather than penalise families, to reduce the longer term costs of social breakdown.

In Chapter 11 we shift back to analysis. Just how good has our economic performance really been? How reliant have we been on financial services, property and debt? We show why the next government must be unashamedly pro-growth.

Then we go on to look at ways to improve our economic performance.

Transport is examined in Chapter 12. We argue that we must focus spending on areas of real congestion and on the modes of transport that are most cost effective – particularly roads. But we also need to use our infrastructure more efficiently: using road pricing to reduce congestion, and concentrating on the cost-effective improvements suggested by the Eddington review. We could reduce the costs of transport investment by rationalising the various infrastructure financing bodies into an infrastructure bank.

How can we reduce over-regulation? Chapter 13 argues that regulatory budgets, sunset clauses and other wheezes will only get us so far. Policy makers need to be less reactive, and communicate with the public in an adult way about risk. We could make it harder to regulate so much by reforming the statutory instrument process. And Parliament should have Danish-style powers to control European regulation. Fundamentally public officials need to be better educated in risk management, and need to be better protected against claims for compensation. At the same time we should work towards a simpler tax system. All tax rules should be subject to an audit of how much they cost in compliance.

Chapter 14 looks at housing and the huge costs and distortions imposed by our rigid planning system. We show why central house building and density targets don't work, and argue for a transparent and easy to use planning tariff. Instead of compulsion, we should create financial incentives, instead of disincentives, for local authorities to allow development. We examine the system of zoning, and argue that we should rezone former industrial land and make change of use easier. More radically, we argue that in some industrial zones planning law is not appropriate. We examine the success of Docklands, and look at creating new Development Corporations to promote a number of large planned developments in the areas of high demand.

We conclude by arguing for a rethink of our expensive but ineffective environment and energy policies. Chapter 15 argues that by rationalising the complex tax and subsidy mix we could deliver more emissions reductions at a lower cost. But we go further and argue that the current paradigm is wrong: we should reshape climate policy goals around global consumption, not national production and focus much more on promoting global technology change. Nor should we forget about everything but emissions. Britain must take energy security more seriously, and redeploy Foreign Office officials to this task. We should use market forces to bring about improvements in our everyday environment. We should create a real market for waste and encourage energy from waste. We could also use market forces and deposit schemes to reduce litter.

In summary, this book proposes many different ways to make public sector organisations more dynamic and less bureaucratic. It looks at whether there are alternative, non-statist ways to achieve the objectives of public policy. And a consistent theme throughout the book is the need to swap central targets and controls for the right structures and incentives.

Across many different fields we find that the answer is to devolve control and accountability to the local level. We find that government policy fails whenever it does not enable people and communities to take responsibility for their own lives.

So in the end, the central message of the book is that central government cannot solve all of our problems, and must instead set us free to improve our own lives and communities.

## 1

# The Revolution that Wasn't

An expatriate Briton who was driven to leave the country during the Winter of Discontent of 1979 and did not return until 30 years later might quickly come to the conclusion that what was a sub-socialist society had undergone a transformation into a lively free market economy. Arriving on a British Airways 747 into Gatwick airport, he would look in wonderment at the choice of airlines and the cheapness of the tickets, so much lower than when the industry was dominated by national carriers. He might then take a train to St Pancras International station. Instead of carriages painted ubiquitous British Railways blue he would find an array of colourful private liveries, at the centre of which sat magnificent Eurostar trains, each capable of carrying more passengers than the plane that brought him home. The station itself, in place of a grim BR buffet, is now a bright palace of shops and cafés.

Our expat might then take the tube to Leicester Square, where in place of the mountains of uncollected binbags left behind by striking dustmen, he would find contractors from a private firm, such as Onyx, collecting waste and hosing down the street afterwards. If he stopped to watch the passing cars he might quickly spot the demise of that unloved marque, British Leyland, which in the 1970s became a byword for shoddy quality and poisonous industrial relations. He would struggle to find a car which could truly be called British, yet in place of spluttering Austin Allegros, he would nevertheless find a wealth of slick new cars made in this country. If our expatriate stopped by at a phone shop, he might get another big surprise. Rather than wait several weeks for a British Telecom engineer to come and connect him, he could choose from a wide range of different brands and tariffs; and use it straightaway.

He might then drive northwards, and struggle to detect what were known when he left as the “industrial heartlands”. He would have to look hard to

find a coalmine or a steelworks, the backbone of nationalised industry in 1979. In their grimy place he would find pleasant industrial parks full of small technological businesses, distribution parks and retail parks. He would scratch his head before realising that scores of lorries bearing the names of “logistics” companies had in fact replaced the old, unreliable British parcels service. He would still find a Midlands landscape punctuated by coal-fired power stations, but if he stopped to ask anyone he would quickly realise that power cuts are no longer a way of life, coalmining, as well as power generation and distribution now being in private hands and less vulnerable to trade union militancy.

Within a relatively short time, then, our returning expat might gain the impression that the state, and the bolshie unions which used to hold it to ransom, were in full retreat. Yet he would have had a highly misleading impression. In spite of a generation of privatisations, many of them bitterly opposed by unions and many on the Left, the British state is not smaller than it was in 1979. It is, incredibly, bigger. Not only is the Government spending more in real terms than it was in 1979, state spending is a bigger proportion of GDP. In 1979, 45 pence of every pound spent in Britain, was by the Government. In the current financial year, it will be 47.5 pence in every pound, and in 2010–2011 it is expected by the Treasury to grow to 48.1 pence. The European Commission believes it could be more: it expects state spending to account for 52.4 pence of every pound spent in Britain, which would make the state larger than it has ever been.

The state did shrink considerably for two decades after 1979 as privatisations moved large numbers of employees into the private sector. In 1998, public sector employment reached its lowest point, when 5.16 million Britons worked for the state. In 1999–2000, public spending reached a low of 36.3% of GDP. But since then, and in spite of a number of privatisations, state employment has mushroomed. By the first quarter of 2009 the Office of National Statistics counted 6.05 million on the state payroll.

It would take a while for our returning expat to notice how these extra 900,000 state employees are filling their time, because in some ways their efforts are invisible. The nationalised industries of the 1970s were muscular expressions of state power. By contrast you can't see, driving up the M1, armies of regulators and central planners. Many state functions have been disguised as quasi private companies: you would not guess, for example, passing the Liverpool offices of an organisation called Buying Solutions that it is in fact an arm of government charged with the central supply of paperclips and other

office equipment to the public sector. The public sector has appropriated the language and rewards of the private sector, but not the disciplines.

Privatised industries, too, are not always what they seem. In some of them a façade of private enterprise conceals state funding and control. Studying the liveried train carriages, for example, how would our returning expat guess that the rail industry is now propped up by more public money than it used to consume as a nationalised industry? And how, having learned that British Airways has been a private company for more than two decades, would he guess that it, like many of the former nationalised utilities, is still thwarted by union power?

## No longer making things, but making us do things

It is only when our expat settled down and began to have contact with officialdom that he would begin to appreciate the expanding state. If he sought to start a business he would immediately run into all kinds of licensing schemes which simply did not exist 30 years ago. He might wonder what was the point of many of them. Nightclub bouncers, private security guards and wheel-clampers, for example, must now register with a body called the Security Industry Authority and pay for a £250 licence before they start work. Yet the licensing system does not even pretend to exclude convicted criminals: applicants are advised that convictions for common assault, battery, culpable and reckless injury will be discarded if more than five years old. If caught by a cowboy-clamper in England, our expat might wonder whether Scotland had a better idea: its courts had the practice outlawed as extortion years ago.

Many of the state's activities might leave our expat bewildered. Why, he might ask, when bookshop shelves are burgeoning with cookery books, is the Department of Health paying people to write recipes under its "five-a-day" campaign to persuade us to eat more fruit and vegetables? He might marvel at the hundreds of television channels that are now available in Britain – compared with just three in 1979 – but if he sat down to watch BBC3 he might ask himself: why on earth is there still a state broadcasting service pumping out cheap entertainment in direct competition with commercial channels?

Our expat would be appalled by the frivolity of some public bodies. What would he make of the National Endowment for Science, Technology and the Arts, which claims to be "the UK's leading independent expert on innovation" and to that end, spends National Lottery money on various schemes. Among those who have been awarded its "dream time fellowships" are a university professor

given £40,000 to take a year off to become a street entertainer and a clown paid £39,200 to start up “clown workshops” for stressed-out professionals.

The growth in the state over the past 30 years has not prevented Britain from becoming a wealthier country. Services and light industries may not be as visually impressive as the state-dominated manufacturing industries which they replaced – for some people employed or formerly employed in heavy manufacturing they hardly count as providing “proper” jobs at all – but they are highly productive. The high wages supported by a reformed and enriched economy are raising quantities of tax which, in real terms, the Callaghan Government of 1979 could only have dreamed of raising. Tony Blair’s Government, which took office in 1997 had learned some of the lessons of the 1970s. It realised that punitive tax rates earn the Government less, not more, revenue, and as a result it did not drive taxpayers into exile. In fact, the Government managed to grow the state without completely ruining the economy.

That said, the perkiness of the British economy during the decade and a half from the bottom of the early 1990s recession until the 2008–09 recession was in some ways illusory. Even before the credit crunch, which exposed the reliance of the British economy upon debt, Britain’s overall economic performance was not all it was cracked up to be. Our economic success is often compared with stagnation in continental Europe: between 1992 and 2006 the UK economy grew in real terms by 49%, compared with 33% in the eurozone – that part of the European Union which now uses the euro. Yet the eurozone figure is dragged down by the absorption of East Germany. Compared with the advanced industrialised nations in the rest of the world over the same period, Britain’s success was unspectacular: Canada grew by 59%, the US by 60% and Australia by 73%.<sup>1</sup>

In the decade to 2007, Britain’s economy became more and more unbalanced. Imagine a hot air balloon, keeping the public sector, in the basket below, barely aloft. Much of the fuel going into the balloon was derived from the financial services sector, along with private and public debt. Between 2001 and 2006, British homeowners extracted £265 billion in equity from their homes. Businesses, too, were pumped up on debt. The Government did not generally make life easy for business – except when it came to borrowing. Nothing better sums up the British economy in 2007 than the results of a World Bank survey into the best places in the world to do business. On the ease of obtaining licences to do business Britain came 54th. But on the ease of getting credit it came a runaway first.

1 Hartwich, O et al, *More Mirage than Miracle: assessing the UK’s economic performance*, Policy Exchange

Until the credit ran out in the summer of 2007 the borrowing binge kept the cash tills ringing – distracting attention from the other big development in the British economy: the shocking decline in productivity in the expanding public sector. It is not immediately obvious why a worker in the public sector should be less productive than one in the private sector, but in practice this has repeatedly turned out to be the case. In fact, productivity in the public sector is going backwards. According to the Office of National Statistics, output per worker in the public sector fell between 1998 and 2007 by 3.2%. Over the same period, productivity per private sector worker rose by 22.8%.<sup>2</sup>

In other words, if the entire economy was run like public services, the economy would have spent the past decade dipping in and out of a perennial recession. Miserable though they are, there must be some question as to whether these figures are in fact flattering the public sector. Output in the education sector, for example, was “quality adjusted” to take into account improving GCSE results in spite of a widespread suspicion that these results may be more the result of grade inflation than real improvement in education standards.

## No shortage of waste to trim

Underperforming staff, who are poorly incentivised and insulated from the fear of failure, lie partly behind falling productivity in the public sector. But it is no use just blaming the staff. Many of the tasks that they are set are either pointless – or, worse, hugely damaging to business. The growth of the state is inextricably linked with the Government’s eagerness to legislate.

It is hard to see what social or economic benefit, for example, comes out of a licensing scheme requiring staff at a mail order champagne business to undertake a course in how to throw drunks out of a bar. What is the point of a new rule, contained within the Gambling Act, restricting the value of teddy bears given away as prizes at fairground stalls from £8 to £5? And why do we need a licensing scheme, costing applicants £600 a time, specifically for all-night garages wanting to sell hot food between 11pm and 5am?

Or take the Government’s proposal to force every landlord in Britain to pay to register themselves on a national database. Instead of bad landlords being taken to court and punished, the proposal simply treats everyone as a potential criminal. It takes away the right of two people to freely enter into an agreement without the supervision of the state. Or take the case of two police-women who were accused of breaking the law under the Childcare Act 2006,

2 Smith, D, *Tories Must Tackle Public Sector Blight*, Sunday Times, 14th June 2009

because they had looked after each other's children while at work, but were not registered childminders. After an inspector turned up at their homes they were sent a letter saying they could be prosecuted, and would be put under surveillance to make sure they did not continue helping each other.

Laughing off silly rules and regulations has become something of a national pastime, but there is nothing funny about the cost to the economy. In 2006 the Better Regulation Taskforce, which was set up by the Government to fight red tape, calculated that complying with regulations was costing the economy £100 billion a year – or 12% of GDP. The fact that new legislation imposes a cost on business rarely seems to enter the Government's calculations, when making policy. Announcing, say, new regulations to force firms to offer paid paternity leave to new fathers, ministers will trot out the advantages of having a refreshed workforce, without acknowledging that it will increase companies' wage bills.

Besides excessive legislation, target-setting has been a curse on the public sector. Measuring performance is an important part of any business, but in the public sector it has become a disease. Many targets are counter-productive. There is little point, for example, setting a target for the number of NHS patients who spend four hours waiting in accident and emergency units if hospitals then start wheeling patients nearing the end of a four-hour wait along to a "clinical assessment unit" – sometimes a corridor – where they must begin a fresh wait. Many other targets have had perverse consequences which should have been foreseen by the bureaucrats who instigated them. Did no one stop to think, when giving councils adoption targets, that social service departments would be given an incentive to remove more newborn babies from their mothers – these being the easiest to adopt – while older children remained in foster care?

The absurdity the tick-box culture reached is summed up well by an order made to staff at the Royal Cornwall Hospitals Trust in 2005; to conduct a "chocolate audit" of their patients. They were told to count each box of chocolates given to them by patients so that the trust's managers could use the information to construct an index of patient satisfaction. At the end of the year the trust announced with some self-congratulation that patients had made 8,000 "grateful gestures" and written only 316 letters of complaint.

Individuals as well as businesses have borne the brunt of the extra bureaucratic burden. As Chancellor, Gordon Brown devised tax credits – which are really welfare payments in disguise – as a means of providing "targeted help" for families in work and for the elderly. This desire to target very narrow

classes of individuals has meant the creation of a vast additional bureaucracy to administer the system, along with lengthy and complicated forms that discourage many people from applying to get money they are entitled to. A better outcome could have been achieved by raising the threshold at which income tax and National Insurance contributions became payable, by allowing parents to transfer some of their children's tax-free allowance to themselves and by increasing the state pension. The difference is, however, that the latter measures do not create jobs. The tax credits system, by contrast, creates huge numbers of them. Four million people now claim tax credits, each of whom must contact Her Majesty's Revenue & Customs (HMRC) to update their income details on a regular basis. In 2007–08 administering this and the income tax system cost £433 million.

Tax credits are not merely expensive to run; they have had the effect of massively increasing the numbers of people on welfare benefits. Families can claim the benefit even in cases where their family income is as high as £60,000 a year. Yet there is no sign of there having been a debate in government as to the desirability of recruiting so many people as clients of the state. It isn't just tax credits that are expanding the client state. Increasing numbers of people – again, some earning as much as £60,000 a year – are being enticed into social housing through shared-ownership schemes. Subsidising home-buyers is an expensive sticking plaster solution to the real problem: a shortage of housing created by draconian planning policies.

## Not trusting us to live our lives

It is a thread which runs through this book that so many of the responsibilities that we could be taking over our own lives have been commandeered by officialdom, to the detriment of the economy and society at large. From rising personal debt and declining home-ownership to health edicts and child protection plans, an increasing section of the British population is being encouraged into dependence upon the state. The children of the nanny state are growing up into bewildered adults.

The growth of the state and state influence is socially and geographically very uneven. The class of wealth-creators has grown hugely over the last three decades. From software designers working in their spare bedrooms to chefs opening restaurants to satisfy our newfound taste for good food, there are plenty of people who have grabbed the opportunity to create their own business. Switch on the television and you will detect something that would have

been impossible to imagine in 1979: an entrepreneurial spirit has become engrained in British popular culture, from wide-eyed couples embarking on house renovations to Sir Alan Sugar hiring and firing his apprentices.

But there is another Britain, which lies miles away. This is a Britain of third-generation benefit-claimants for whom earning a living has become an alien concept. Social responsibility has broken down. There was a time when mining and industrial communities were largely self-policing. No longer. Citizens are increasingly discouraged from intervening, either by helping neighbours who have struck hard times or by apprehending anti-social residents. They are encouraged instead to report concerns to distant agencies of the state. Consequently there is little social pressure to behave. Family breakdown is encouraged through a tax and benefit system which actively rewards it.

In this Britain lives are increasingly being managed by welfare officers, social workers, housing officers and other arms of the state. To use a phrase favoured by the Children, Schools and Families Secretary, Ed Balls, the state is out to “grip” these families. The consequence of heavy-handed state attention, inevitably, is that the support traditionally offered by families, neighbours and local charities tends to fall away. In some cases it is firmly repelled by the state. In a recent case in Edinburgh the grandparents of two children taken away from their mother were refused the right to bring them up on the dubious grounds that they were too old. Social services had in front of them the option of a solution based around the children’s own family – and yet chose to place the children with unrelated adoptive parents. What kind of society is it which prevents families from trying to sort out their own problems?

No matter how it is packaged, welfare has always been, and remains, a trap. Contrary to the repeated claims by Gordon Brown in his early years as Chancellor that he was “making work pay”, too often the opposite remains the case. In one extreme example it was revealed that an unemployed mother of five was living in an £800,000 “executive” home in Edgware, courtesy of housing benefit. She may be grateful for the home now, but it will not serve her longer-term interests. She faces a bleak decision: if she does get a job she will no longer be eligible for the benefit and would have to find herself joining hundreds of other young local people in the search for an affordable two-bedroom flat. While not every benefit-claimant is living in such publicly funded largesse, the welfare trap is widespread. As is explained later in this book, many welfare claimants face effective marginal tax rates approaching 100%, or even greater.

The fiasco over housing benefit is all the more remarkable because six months earlier it had supposedly been reformed to give taxpayers a better deal.

That has so often been the case during the life of the present Government: there is a lot of talk of reform, followed by changes which make the problem even worse and prove even more expensive for taxpayers. Attempting to trim the welfare budget will be doomed to failure so long as there are incentives to remain out of work. Until that incentive is turned on its head, the welfare classes will just grow and grow.

## The client state

A wider client state is under creation here: one that is collectively dependent on state employment. Nowhere in Britain encapsulates this quite as much as Castle Morpeth, in Northumberland. The district, which consists of a pleasant market town, with a rural area to the west and an industrial fringe to the east, was identified by the Centre for Economics and Business Research in 2008 as the part of Britain most dominated by public sector jobs – 13,629, or 57%, of the total jobs in the district are now in the public sector.<sup>3</sup> Coalmining was once a big employer in the area. Mine closures have resulted in the loss of 500 jobs since 1998 – yet that has been more than made up by the creation of nearly 5,000 public sector jobs in the local council, the police, hospitals and in particular HMRC, which has offices there. Just as when it swirled with and choked on coal fumes, Castle Morpeth continues to live and breathe the local product – in this case, tax revenues.

The cost of supporting the growing number of public sector workers may be great now, but it will be all the greater in future thanks to the millstone of public sector pensions. In contrast to the private sector, where the vast majority of workers will retire on pensions determined by the size of the pooled funds in which their pension contributions have been invested, most public sector workers can still look forward to final salary pensions. In retirement they will receive an income based on their salary at the time they retired – often two-thirds – index-linked for life.

Public sector workers see a monthly deduction on their payslips entitled “pension contribution” and might assume that this is covering the cost of their retirement. In fact, their payments are not even nearly doing this: the taxpayer is heavily subsidising their retirement. Unlike most private sector pension schemes, public sector pensions are mostly unfunded: pension contributions paid by today’s workers are used to pay pensions to today’s pensioners, while tomorrow’s pensioners will be paid out of pension contributions paid by

3 *The Times*, 30th November 2008

tomorrow's workers. There is a huge risk in this arrangement: the Government does not know for sure how many public sector workers there will be to pay for future pensions, neither does it know what rate of inflation will prevail over the coming decades nor how long its pensioners will live. It was this kind of miscalculation which brought down the Equitable Life insurance company. If the public sector's pension scheme was offered by a private company then it would have gone bust years ago; but instead the taxpayer simply picks up the tab for a growing, yawning gap between pension contributions and payments.

Public sector workers typically pay 6% of their salaries in pension contributions. The public bodies which employ them typically pay a further 20%. But if public sector workers were really to cover the cost of such a generous pension scheme, it would require them to put aside a whopping 48% of their salaries.<sup>4</sup> By 2003 the net public liability caused by this shortfall was £560 billion. At that point the Government considered, but thanks to pressure from trade unions, ultimately failed to reform public sector pensions. By 2008, the Government's pension liabilities had grown to £1.1 trillion, and the annual cost of servicing this debt had mushroomed to £45 billion. And yet still there is no sign of any meaningful reform.

If the Government did deliberately grow the public sector with the intention of creating a client state more likely to support it at the polls, it is a strategy which has backfired spectacularly. There is little sign in 2010 of a public that is grateful for the attentions which have been bestowed upon it. On the contrary, ministers have come to be seen as part of a political class which is remote from the concerns of the rest of society and which has its hands in the till. The MPs' expenses scandal of 2009 has been hugely damaging to the image of Parliament and politicians in particular. This is not just because of the cavalier behaviour of MPs themselves, it is because it sums up everything that is wrong with the public sector. The most frequent reply of MPs caught out claiming for their gardens, for mortgages which had already been paid off or for houses in which they did not even live has been "I cleared it with the fees office and it is within the rules". There is no desire on the part of the vast majority of MPs to ensure taxpayers get a good deal from their expenses; that, for example, the costs be reduced year-on-year and that redundant homes should be sold. We have a generation of career politicians few of whom have ever worked at management level in profit-making companies and therefore not learned the need constantly to fight against costs in order to survive. They inhabit instead a world in which excess expenditure can simply be picked up by the taxpayer.

4 Record, Neil, *Public Sector Pensions: the UK's Second National Debt*, Policy Exchange 2009

Britain simply can no longer afford to be run on this basis. In his April 2009 budget, Alistair Darling predicted that the Government would have to borrow £175 billion in the year 2009–10. This estimate, which within a couple of months already seemed optimistic, would take the fiscal deficit to a record 15% of GDP. Given that a penny rise in the basic rate of income tax is reckoned to raise between £4 billion and £5 billion in extra revenue, to try to fill this fiscal black hole by raising taxes alone is an impossibility. And yet the Government is still unable in public to admit the need for a massive cut in public spending and shrinkage of the state. In fact, it is increasing public spending over and above the level needed to tackle the recession. It has attempted to sell the latest spending splurge as a Keynesian scheme to haul the country out of recession. Yet only 38% of the projected rise in spending between 2008–09 and 2010–11 can be attributed to rising benefits payments and other expenditure related to recession.<sup>5</sup> A further 6% can be attributed to capital projects. The remaining 56% is increased day to day expenditure. That the government is still expanding the state at a time of fiscal crisis shows an extraordinarily cavalier attitude to the nation's finances.

Britain has become a richer, more entrepreneurial place than it was 30 years ago, but unless we are to slip backwards into the stagnant 1970s – with its brain drain and call on the International Monetary Fund – whoever wins the next election is going to have to embark on a drastic plan to shrink and reform the overblown state. To do so is necessary to ensure that the productive parts of the economy are not swamped by the unproductive parts. But it is not just a case of cutting costs and rebalancing some very unbalanced books. The challenge lies in promoting the virtues of a smaller state, in which responsibilities are returned to individuals, families, friends and citizens.

5 Lilico, A, O'Brien, N and Atashzai, A, *Controlling public spending: the scale of the challenge* Policy Exchange 2009

## 2

## The Philosophy of Government

The death of 17 month old Peter Connelly, or Baby P, at the hands of his mother, her boyfriend and lodger in August 2007 is a model case study in the practice of modern government; how an incident creates panic which swiftly gets translated into legislation, and how the state ends up ever more deeply involved in our lives.

The circumstances surrounding the tragic death of Baby P have left a long trail of legislative activity and government initiatives. Following an inquiry into the failures of Haringey social services to save the boy in spite of 60 visits to his home, Ed Balls, the Children, Schools and Families Secretary announced that independent panels would be set up to investigate the death or injury of every child in the care of social services. Jack Straw announced that failing social workers would in future be named and shamed. The National Institute for Health and Clinical Excellence issued new guidance to doctors warning them to look for extra possible signs of abuse or neglect in children, including sunburn, smelliness or dirtiness. The Government abolished the Child Protection Register and replaced it with Contactpoint, a database containing details of all 11 million children in Britain – effectively classifying every single one of them as being at risk.

These measures build on work that was already in progress at the Independent Safeguarding Authority, set up after the Soham murders. Its bureaucrats came up with a perfectionist model and planned to vet up to 11.3 million people who come into contact with children – or one in four adults – most of who would have to pay a registration fee of £64 in order to be cleared, including those who came into contact with children only once a month.

Prominent children's writers, including Philip Pullman, said they would stop doing readings in schools in protest: "Why," asked Pullman, "should I pay

£64 to a government agency to give me a little certificate to say that I'm not a paedophile?" As a result, the Independent Safeguarding Authority is to scale back the scheme. It will now vet a "mere" 9 million or so people, at an estimated initial cost of some £170 million. This has damaged all kinds of charities and public services, but it will not solve the problem it is supposed to solve.

## A balanced approach to risk

Amid this flurry of activity one thing is missing: a reasoned debate about the balance of risks.

Though few politicians dared to admit it in the febrile atmosphere which followed the revelations over the death of Baby P, the issue should not have been: how can we prevent another child ever dying at the hands of his parents and carers? The Government will, sadly, never be able to ensure that this "never happens again". The question for the Government is whether they have struck the right balance between the costs of taking children away from their parents and the risks posed by dangerous people like the parents of Baby P.

Many of the initiatives launched in response to the death of Baby P were irrelevant to the problem of child abuse. Setting up a network of 3,000 children's centres may or may not be a good idea, but it is hard to see how they would prevent another such case: Peter Connelly and his mother did in fact attend such a centre in Haringey.

If the state took children away whenever there was any possible risk to them, it would be overwhelmed. Lord Laming, who conducted the inquiry into the death of Peter Connelly and also an earlier inquiry into the death of Victoria Climbié in 2000, estimated in his report that 200,000 children in Britain live with violent parents. He also claimed that 350,000 children were being brought up by parents or carers with drug habits and 1.3 million children had parents or carers who drank heavily. And they are not the only ones brought up in homes where there is an elevated risk of abuse. The concept of child abuse is being broadened all the time. The National Obesity Forum, for example, recently called for overweight children to be treated as victims of abuse – a definition which would, on the basis that 13.4% of children under the age of 11 are classified as obese,<sup>6</sup> add another 1.6 million to the list of "abused" children in Britain.

If all these children were to be put under observation or taken into care, how would the state cope? Where would the foster parents come from, and if

they could be found how could we be sure they would all make better parents than the people from whom the children were removed? It would, of course, be an impossibility.

The state cannot take into care every child who could possibly be at risk from abuse. Even if it could the results would be disastrous. There is a lot of evidence to suggest that while there are plenty of lousy parents around, the state is scarcely any better. Just 14% of children in care achieved five GCSEs at grades A\* to C in 2008, compared with 65% of all children. 9% of children over 10 in care were cautioned or convicted of an offence in the year to September 2008.<sup>7</sup> Even with 43,700 children in care – the total in 2008 – the state cannot find permanent homes for them: 65% of children in care for more than two and a half years have had a placement lasting two years.<sup>8</sup>

Any rise in the number of children taken into care would inevitably lead to a further decline in the quality of care. It would also create injustice. No child protection system can assess perfectly the risks which children face. A great number of children would be deprived of loving and competent parents. Hundreds of thousands of lives would be ruined.

Haringey social services were following the same general policy as every other department in the country – trying to keep as many children as possible with their parents and out of care. The problem was not the policy but the judgement of the individuals involved in this case.

The most startling failing was not even on the part of Haringey's social services department which took the rap when its leader Sharon Shoesmith was sacked. The locum paediatrician at St Ann's Hospital failed to complete an examination of Peter on the grounds that he was "miserable and cranky". There was, it turned out, a good reason for his misery and crankiness: he had a broken back and ribs.

No child protection system, however well designed, can ultimately guard against inexplicably bad decisions on the part of individuals who have been properly trained and qualified. We cannot get to a zero risk society – even if we are willing to pay any price. What the system can do, on the other hand, is to create chains of responsibility so that persistently incompetent employees can be dismissed.

Modern politics, though, does not favour honesty. A system of governance subjected to, and modelled around, the needs of 24-hour media is prone to disproportionate, yet ineffective, responses. There is a tendency to exaggerate

7 *Outcome Indicators of Children Looked-after, 12 months to 30th September 2008*, DCSF

8 *Care Matters*, DES white paper 2007

the power that is possessed by a modern democratic government, both on the part of the government itself and on the voters, for whom government is frequently used as an outlet for anger and frustration. We will not have a sensible discussion on government until that is recognised. Government cannot eliminate all risks, and should not pretend otherwise.

### Political risk, or risk to the public?

The attitude of government towards risk has done an about-turn over the past 30 years. Governments used to see their role as trying to play down risk and reassure the public – inevitably, perhaps, in an era of threatened nuclear Armageddon. The Conservative Governments of Margaret Thatcher and John Major, however, were criticised for being too casual in their approach to crises, most notably in their slowness to respond to the BSE outbreak and the complacency which followed when they did respond. One of the best-remembered images of that crisis is of the then environment secretary John Gummer feeding his young daughter Cordelia a beefburger before the cameras in order to try to prove that beef was safe to eat.

The Labour Government elected in 1997 brought a very different approach towards risk. Suddenly, precaution ruled, with devastating results. Within a few days of the Hatfield train crash of October 2000 the rail network was paralysed by speed restrictions: long sections of main line track were restricted to 20 mph for fear that they might be harbouring undiscovered cracks. The 9/11 attacks led to a crackdown on all kinds of innocent activity, such as train enthusiasts taking photographs of locomotives passing through stations. The foot-and-mouth outbreak of 2001 led to a bizarre series of edicts, such as the closure of almost every footpath in Britain, even those passing through corn-fields miles from the nearest farm animals.

In each case, the consequences of government over-reaction quickly became apparent. The Hatfield crisis undermined public confidence in the railways for several years: the fact that there were so many speed restrictions added to the sense of danger and loss of confidence – in spite of statistical evidence that rail travel is many times safer than road travel. The reaction to the foot-and-mouth outbreak savaged the tourist industry while doing little for agriculture.

In many cases the Government is trying to manage the political risk to itself – rather than the real risk to the public.

Many of the closures and restrictions introduced in the response to the various crises the Government has faced have been so clearly illogical and

contradictory that they undermine faith in the Government's ability to manage events. People will ask: why, when airport guards have confiscated my nail file, are the same items for sale in shops in the departure lounge? Why is this public park closed when there are no farm animals in it? A government which cries wolf in its response to every risk will struggle to justify its case when it really does need to restrict liberty.

This is particularly true if voters feel the Government is using fear to justify actions which might otherwise prove unpopular. The case for compulsory ID cards was made by claiming they would deter terrorists; though ministers could not explain how, given that the 9/11 hijackers and London tube bombers had never sought to disguise their identities, only their intentions. With SARS, bird flu and swine flu, the most sensationalist claims came not from tabloid journalists but from the Government and its advisers. With bird flu the Home Office made a "prudent" estimate that 320,000 Britons could die and Chief Medical Officer Sir Liam Donaldson predicted up to 700,000 deaths.<sup>9</sup> In the event the disease failed to materialise and not a single Briton died.

## Misreading public opinion

No discussion on liberty and the limits of government can ignore the role of public opinion. Britain is not a country of freedom-loving people which somehow finds itself under the yoke of a despotic government. Our leaders are to a large extent reflections of ourselves.

The Government's day-to-day agenda continues to be driven by public outrage – such as Harriet Harman's suggestion in 2009 that Sir Fred Goodwin, the former chief executive of the Royal Bank of Scotland, should be tried in the "Court of Public Opinion" for refusing to give up his large pension.

Governments come up with bad law not because they refuse to listen to the people but because it fails to do so intelligently. Public opinion is neither consistent nor always coherent. Presented with the horrible murder of a child such as that of Peter Connelly it is easy to provoke people into a view that social services are dangerously lax. But when presented instead with the case of a child taken unfairly from his parents, public opinion tends to swerve violently in the other direction, viewing social workers as Stalinists intent on taking away our children for their own perverse pleasure. Attempt to satisfy the public when it is engaged on either of those swings

of opinion and a government will end up in trouble. Populism, ultimately, is not very popular.

A good government should be strong enough to tell the voters the truth; to trust the public with a realistic assessment of risks and uncertainties.

What the Government picks up is, in any case, often a version of public opinion distorted by the media. A considered reading of public opinion in the case of Baby P might have taken less notice of tabloid headlines and fevered posts on messageboards, and more notice of a poll conducted on behalf of the Local Government Association (LGA). Asked with whom they believed lay the greatest responsibility for guarding children against abuse, 62% opted for “friends, families and employers” and only 35% for “social workers, police, teachers and doctors”.<sup>10</sup> That should have served as a warning against rushing out measures giving the state greater involvement in child welfare. The poll indicated that most people saw the death of Baby P as the failure of friends and neighbours as much as social workers. They want their communities, not a mightier state, to take on greater responsibility for guarding children’s welfare.

## A lack of trust in us as individuals

While reacting to the noise of public opinion the Government has been rather less inclined to trust the decisions that we make as individuals. It is no longer sufficient for government to grit the pavements when it is icy; if the parks cannot be entirely de-iced then they must be closed, as they were in Camden on a rare snowfall in February 2009.

Excessive interference by the state serves to undermine personal responsibility. By trying to legislate against everything that it considers undesirable the Government creates the inference that anything that is not illegal must therefore be acceptable, anything that does not have a health warning must be safe. The price of this delusion is the absurdity of citizens blaming their misfortunes on the Government for failing to ban things such as smoking, drinking or eating junk food.

We have not quite yet reached the stage at which citizens habitually sue the government for failing to force them to make the right decisions in life – as one smoker attempted to do in the Netherlands ten years ago, claiming that the Dutch Government was at fault for not banning tobacco. But that is the way we are heading: to a society of institutionalised irresponsibility, where legislation takes the place of all personal responsibility.

<sup>10</sup> Local Government Association website, 25th March 2009

## Society exists, but it is meaningless without individuals and communities

The misquoted words of Mrs Thatcher “there is no such thing as society” did not instantly bruise her Government but caused lingering harm to the Conservative party, perhaps even contributing to the scale of John Major’s defeat in 1997.

It’s interesting to look at what Mrs Thatcher was driving at – the point that most needs are not met by government, or by “society” in the abstract, but by communities and families solving their own problems:

*“I think we have gone through a period when too many children and people have been given to understand, ‘I have a problem, it is the Government’s job to cope with it!’ . . . they are casting their problems on society, and who is society? There is no such thing! There are individual men and women and there are families and no government can do anything except through people and people look to themselves first. It is our duty to look after ourselves and then also to help look after our neighbour, and life is a reciprocal business and people have got the entitlements too much in mind without the obligations.”*

*“There is no such thing as society. There is a living tapestry of men and women and people and the beauty of that tapestry and the quality of our lives will depend upon how much each of us is prepared to take responsibility for ourselves and each of us prepared to turn round and help by our own efforts those who are unfortunate.”<sup>11</sup>*

This idea is now a rhetorical staple. The idea that government cannot solve all problems, and that strong communities are essential could appear in any speech by any leading politician.

But there is a difference between rhetoric and reality. In one sense it might seem odd to say that the current Government has presided over a retreat in individualism. It championed personal ambition and betterment, and largely stuck to Peter Mandelson’s famous promise that a Labour government would be “intensely relaxed about people getting filthy rich”.

As far as the Government is concerned individuals do exist, but often to absorb the blame for society’s problems. Its search for solutions, on the other hand, tends to be conducted through collective solutions: new legislation, government agencies and quangos.

There is too little acknowledgement in policy terms that individuals and communities might be capable of solving their own problems if they are allowed

11 Interview for *Woman’s Own*, September 1987

to and incentivised to. The idea that parents dissatisfied with their children's schools might get together and organise their own education, for example, has featured nowhere in the Government's philosophy on education. At one point the Government sought to devolve responsibility over policing to elected representatives, but backtracked in the face of opposition from officials. We haven't tried using incentives rather than controls to improve transport, or littering, or the environment. We could release huge untapped potential if we allow people and communities to get on with solving their own problems.

## Understanding how and why the state has expanded

The existence of a state is essential for a functioning society. There are central functions of a state – such as defence, law and order – which can only effectively be provided as a common good under the control of a single authority. Beyond this, the state has evolved other functions. Progressively through the first 80 years of the 20th century the state took on the role as a provider of services, some of which – notably education and healthcare – have in Britain and many other countries become near state monopolies. However, in other areas, such as housing, transport emptying the bins and so on, the state has been in retreat for the past 30 years.

So measured in terms of what it owns, the state seems to have shrunk. Because this is the most visible and tangible measure many people think the size of the state has shrunk. But it has not.

Throughout the 20th century, the state also took on an increasing redistributive role: the taking of money from the rich and giving it to the poor, or not so poor. While redistribution is not as overt as it was in the 1970s when the top rate of income tax was 98 pence in the pound, perversely the state's role as a redistributor of wealth has become more engrained as society has become richer – to the point at which there are families on £60,000 a year who are receiving benefits.

That's why, when measured in terms of what it spends, the state is slightly bigger than it was in 1979.

Finally, the state has taken a far greater role in legislating, regulating and controlling economic and social decisions. We now pass nearly four times as much legislation a year as we did in the 1950s. This is the absurd healthy eating advice, the lightbulb bans, the drinking control orders, the parenting classes, the discrimination-litigation industry. It is in this area that the state has ballooned in recent years. It is rather as if the state has won a promotion from

workman to foreman: instead of doing the work it stands around watching, and breathing down the necks of other people who are doing it.

Measured in terms of how much it *controls and regulates*, the state has never been brought under control. It appears to be expanding without limit. Because regulation is less tangible and less visible, this has happened with little scrutiny.

Furthermore, growing the state in this way isn't even the declared objective of any party. Unlike the nationalisations of the 1940s, there was no obvious conscious decision to grow the regulatory and intervention roles of the state. It has happened by stealth – and at a time the Government protested that it was attempting to do the opposite: to trim regulation. The state assumed its role as foreman almost by accident, as the result of hundreds of well-meaning and often misguided initiatives, often on the part of individual ministers without recourse to Parliament.

The decline of nationalised industry has provided a cover: had it not been for the removal of tens of thousands of miners, steel-workers, railwaymen from the state payroll the growth of regulation and intervention would have been far more obvious.

Nonetheless, we should be clear that the size and reach of the state has grown. This is because policy has become driven by a grim utilitarianism, in which intervention is treated as a natural response to any social or economic ill. The utilitarian approach not only erodes freedom, it achieves dismal results. Welfarism has created dynasties of the unemployed. Overly prescriptive state education has led to stagnation on literacy, numeracy and broader education. The transfer of power from community and peer pressure to a formalised criminal justice system has made our streets less, not more safe. Children brought up in care fail at school and drift into crime. We get fatter and drink more in spite of healthy-eating advice.

If the state were a business it would look at its excessive and unhealthy growth over the past decade and ask itself: which are our core activities, and which could be dropped or better done by others? Whether or not the state ought to provide a service should be subject to three tests – in the form of questions which might be asked by the taxpayer funding the service:

1. Do I want to pay for other people on the basis that I, too, might enjoy this service if I fall on hard times?
2. Is this a service which will make society stronger as a whole?
3. Is this a service for which I am willing to pay in order that I might live in a kinder world?

If a service cannot be justified on any of these grounds then it should be considered no business of the state to provide it.

## Keeping rules to a minimum

Freedom is fundamental to the health of a functioning society. It is in conditions of freedom that people innovate, progress and succeed. The freedom to make mistakes is a vital part of the learning process. While the freedom to experiment might be unacceptable, say, in a technician employed in the servicing of gas boilers, there is no reason to force those in many other occupations to follow formulaic rules.

Take education, where one headteacher recently complained that 39 new initiatives from the Department for Children, Schools and Families landed on her desk in a single morning.<sup>12</sup> It seems not to occur to ministers that every central edict emanating from Whitehall makes it more difficult for good teachers to use their initiative and imagination. Rather than rolling out regulation systematically from one sphere to another, the Government needs to reason where regulation is necessary and where it is a hindrance.

Legislation should begin with a presumption that people can generally be trusted to look after themselves and their families, and that we are decent, honest and kind. The same is true of communities. Laws and regulations should begin with the presumption that groups of people will want to sort out their own problems, not that they are looking upon the state to step in on their behalf. There should be honesty about what the state cannot hope to do.

Above all, the state should function on the principle that its legitimacy derives from the will of the people. It should never have been allowed to try to assume the role of parent figure or social engineer.

A more limited government will be more successful. Government should abandon the pursuit of perfection, and concentrate on its core functions.

12 *Daily Telegraph*, 29th August 2009

## 3

# A Culture of Rights

### The Human Rights Act

The Human Rights Act 1998 was one of the most high profile pieces of legislation to be passed during New Labour's first term in office. The Act incorporated the European Convention on Human Rights into the UK's domestic law. By making this change in the first full year of its life, the Government hoped to distance itself from its predecessors who had often been embarrassed by rulings from the European Court of Human Rights.

On the face of it, the Government's intention seemed laudable. It wanted to show that Britain would not only honour the convention's values when compelled to do so by an international court; but would also ensure that in every decision it took, full consideration was taken of the rights of its citizens. Who could reasonably object to fundamental freedoms, such as the right to life or freedom of expression, being protected by law?

However, the Act did not merely mean that ministers in Whitehall would have to ensure that they were compliant with the European Convention. In reality, every aspect of the public sector would have to act in line with it and ensure it complied with the body of case law that had grown up with it, arising out of the European Court of Human Rights, based in Strasbourg. The Ministry of Justice's own guidance states that the Act applies to central government, local government, local authorities, the police, prisons, the immigration service, the NHS, courts, tribunals, the planning inspectorate, executive agencies (such as Job Centre Plus) and statutory regulatory bodies.<sup>13</sup>

13 [www.justice.gov.uk/guidance/docs/human-rights-making-sense-human-rights.pdf](http://www.justice.gov.uk/guidance/docs/human-rights-making-sense-human-rights.pdf)

The Government's own enthusiasm for human rights was short lived. Jack Straw's replacement as Home Secretary, David Blunkett, found his Asylum and Immigration Act on the wrong end of a ruling by Mr Justice Collins, who decided that to deny welfare payments to asylum-seekers violated article 3 of the convention, by subjecting immigrants to "inhuman and degrading" treatment. Mr Blunkett duly announced that he was "fed up with having to deal with a situation where Parliament debates issues and judges overturn them . . . I also have the right to say Parliament did debate this, we were aware of the circumstance, we did mean what we said and, on behalf of the British people, we are going to implement it."<sup>14</sup> By 2006, Tony Blair, too, had come to realise the consequences of putting Parliament at the mercy of the courts. He described as "an abuse of common sense" a ruling by the High Court to prevent the deportation of nine Afghan asylum-seekers who had arrived in Britain by hijacking an internal Afghan flight in 2000.

The Government cannot say that they were not warned about the consequences of the Human Rights Act. Lord McCluskey, a Scottish judge and vice-chairman of the Human Rights Institute of the International Bar Association, had warned about the Canadian experience, where a similar human rights law had produced "a field day for crackpots, a pain in the neck for judges and a gold mine for lawyers". Lord McCluskey's words to the House of Lords on 3rd November 1997 deserve repeating: "By incorporating into domestic law vague, imprecise and high-sounding statements of legal rights we hand what is truly legislative power away from a democratic and accountable Parliament to an appointed, unelected and unaccountable judiciary."

That is the nub. The basis of the Human Rights Act is that democracy cannot be trusted – it must be policed by unelected judges. The argument is that only judges, removed from the court of public opinion and the temptations of power, can guarantee our liberty. It is an unappealing argument. If politicians can sometimes be self-serving, so too can judges. The difference is that the former are accountable to the people and the latter are not.

In the first five years that the Human Rights Act was in force, up until October 2005, domestic courts issued 17 declarations of incompatibility. That is to say, that on 17 separate occasions a court has found that a statute passed by a democratically elected parliament did not meet with the requirements laid down by the European Court of Human Rights and should therefore be revised. When he introduced the Human Rights Act, as a bill into the House of

14 [www.independent.co.uk/news/uk/crime/asylum-system-flawed-rules-high-court-598233.html](http://www.independent.co.uk/news/uk/crime/asylum-system-flawed-rules-high-court-598233.html)

Lords, the then Lord Chancellor Lord Irvine, said that he expected declarations of incompatibility to be “rare”.<sup>15</sup>

Authority at all levels is being challenged, from the trivial to the extremely serious. The right to free expression has proved a particularly fruitful source of perverse rulings. In one case a 12 year old schoolboy was granted by the court the right to wear his hair dyed bright red. In another case a convicted arsonist managed to overturn a ban on her carrying a cigarette lighter in public, on the grounds that it would interfere with her right to express herself by smoking.

Denbigh High School in Luton was dragged through the courts for four years after it sent home a 13 year old Muslim pupil for breaking its uniform code by wearing a full length gown. The pupil, who was represented by Cherie Booth QC, maintained that the ban on the gown contravened her right to express her religion. She won in the Court of Appeal before the law lords pointed out what should have been obvious from the beginning: that a right to freedom to practise her religion did not apply everywhere.<sup>16</sup> The headmaster of another school taken to the High Court over his decision to ban a 12 year old pupil from wearing a niqab had to point out that were pupils allowed to wear veils he would not be able to ensure children’s safety: intruders could easily hide beneath veils.

The Royal Devon and Exeter Hospital was challenged by a nurse who had been asked not to wear a dangling crucifix at work – even though the management made it clear that this was for hygiene rather than religious reasons and she was free to pin the crucifix to her lapel.

In 2005 convicted rapist Anthony Rice raped and murdered Naomi Bryant in Winchester after being freed on licence by the Parole Board and Probation Service. The Chief Inspector of Probation, Andrew Bridges, concluded in an investigation that parole officers had allowed public protection considerations to be undermined by human rights considerations.

Abu Qatada, a Jordanian asylum-seeker wanted by his home country in connection with a string of bombings in 1999, has been a beneficiary of the Human Rights Act. His extradition was blocked by the Court of Appeal on the grounds that he might face torture were he to be tried in Jordan – in spite of the Government receiving assurances that he would not be. The Court of Appeal’s decision was overthrown by the House of Lords. However, the European Court of Human Rights ruled he could launch a further appeal – and in the meantime he was due £2,500 compensation for his time spent in

15 *The Law Society Gazette*: [www.lawgazette.co.uk/features/doing-rights-thing](http://www.lawgazette.co.uk/features/doing-rights-thing)

16 *Daily Telegraph*, 23rd March 2006

Belmarsh prison. Similarly, the convicted murderer of the headmaster Philip Lawrence, Learco Chindamo, could not be deported back to his native Italy upon being released from prison, because he had spent over ten years in the UK prior to committing his crime and to do so would breach both EU law and the Human Rights Act.<sup>17</sup>

In all these cases there is a common factor. The relevant authority is thwarted in its ability to discharge its duties by court decisions which focus on the human rights of one individual to the exclusion of the wider public interest. If a headmaster lacks the discretion to enforce standards of appearance among pupils, then how can discipline be maintained? If the Government is prevented from co-operating with a benign Arab state in fighting terrorism how can it possibly expect co-operation in our own fight against terror?

The creation of the European Convention on Human Rights was a noble exercise in the wake of the atrocities of Nazi Germany and an attempt to bolster the free nations of Europe against the ever present danger of totalitarianism. The convention was established by the Council of Europe, an organisation pre-dating the European Union and with a much broader membership. The council was designed as an early warning system which might allow the activities of potentially totalitarian regimes to be picked up at an early stage and provided a means by which they might be officially warned. The wording of the convention itself is seldom a cause of controversy. It is the judgments of the European Court of Human Rights, imported into the UK by the Human Rights Act, that have proved so troublesome.

Crucially, the court is also devoid of constitutional legitimacy. If one compares the US Supreme Court, a body that frequently hands down controversial rulings, but which remains broadly respected by those affected by its deliberations, with the European Court in Strasbourg, then the lack of respect for the latter is apparent. There is no clear understanding in Britain as to why we must endure a constant stream of rulings that run contrary to common sense and our democratic culture. The result is that the rulings of the European Court (and since the passing of the Human Rights Act, the rulings of British courts on human rights issues that subscribe to Strasbourg's case law) lack any real legitimacy and that the whole area has become a laughing stock.

Following his retirement as a law lord in 2009, Lord Hoffmann delivered a stinging attack on the way that the European Convention on Human Rights had been interpreted and expanded as a result of bad judgments.<sup>18</sup> He

17 *Learco Chindamo v Secretary of State*: [www.judiciary.gov.uk/docs/judgments\\_guidance/chindamo\\_21082007.pdf](http://www.judiciary.gov.uk/docs/judgments_guidance/chindamo_21082007.pdf)

18 'The Universality of Human Rights,' Speech to Judicial Studies Board, 19th March 2009

observed that the concept of what should and what should not be a human right varies enormously from one country to another and has done so for centuries. What might be considered a key right in a nation that has spent the majority of the last two centuries under a totalitarian leader, would not necessarily be an issue in one that has a long and well established democratic tradition. Moreover, judges in Strasbourg simply do not understand the culture and values of the British people and that some things are best decided by those who understand them.

Given that the court is obliged to represent all its member states, the case law that has emerged, and which we have now absorbed into our own law, is confused and contradictory. Lord Hoffmann notes that: "The court now has 47 judges, one for each member state of the Council of Europe. One country, one judge; so that Liechtenstein, San Marino, Monaco and Andorra, which have a combined population slightly less than that of the London Borough of Islington, have four judges and Russia, with a population of 140 million, has one judge."<sup>19</sup>

By way of example, Lord Hoffmann cited the European Court of Human Rights ruling in a case concerning whether or not there should be night flights from Heathrow airport. Given that in that instance, a democratically elected politician had already made a clear decision, the ruling by the ECHR reversing it (on the grounds that local residents had had their right to privacy and family life violated), completely subverted the democratic decision-making process in Britain.

And yet despite all of this, the situation in Strasbourg is progressively worsening. Since 1998, individuals have had the right to petition the court. Far from improving access of the poor and oppressed to justice, the rule has led to a huge number of petitions of little merit. In 2008 only one in 20 petitions were ruled admissible. There was a backlog of 100,000 cases still outstanding, which at the current rate will take four years to clear.

For the UK, the choice is clear. Either it must remain in a system that despite being built on good intentions, no longer works for the needs of the British people in producing human rights law that is clear and easy to reason; or it should leave the jurisdiction of the court. We believe that the latter course is the only one likely to end a culture of rights without responsibilities and normalise the relations between citizens and government.

To those who would oppose this change, on the basis that it would send out the wrong message to oppressed peoples around the world, it is worth

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19 'The Universality of Human Rights' at paragraph 38

noting that we have been here before. Ours is not a tradition that requires clearly laid down rights to protect individual liberties. As Lord Hoffmann noted: following the publication in 1789 of the French Declaration of the Rights of Man and of the Citizen, Parliament declined to pass a similar declaration: “Everyone in Europe agreed that in England was a free country; that there was, for example, freedom of speech although there was no law which expressly said so.”

## The entitlement society – footing the bill

From the early 1990s onwards, government began to appreciate that the state could not merely act as a great unresponsive monolith, but needed to do more to ensure that it acted in accordance with the needs of individuals. This move was borne out by initiatives such as the Citizen’s Charter, brought in by John Major. This was the first time that the Government had laid out minimum standards that people could expect from public services. On its own, this change was positive, because it encouraged those providing public services to think of the public as consumers, with individual needs. The other consequence was cultural; gradually people stopped thinking of public services as coming from a finite budget, for the benefit of all, and began to have ever greater expectations for what could be provided. On its own, this change would have been entirely welcome; anything that empowers a citizen to challenge the state to work smarter, benefits everyone. If enough people exert influence on their MPs then a change will happen.

The problem came when the Human Rights Act provided a method for individuals to short circuit the decisions of a democratically elected minister that they didn’t like by going to court to claim what they saw as an entitlement, which whether successful or not, always cost the taxpayer a significant amount of money in legal costs.

Aside from its direct legal impact, the Human Rights Act has done much to change the decision-making culture within government, as policy makers pause to consider the chances of judges challenging the legislation they support or the decisions they take. The Treasury Solicitor’s Department, the largest part of the Government Legal Service, provides legal advice to most central government departments. Its own operating costs increased from £9,317,000 in 2003–04, to £15,699,000 in 2009–10; an increase of over 68%.<sup>20</sup> What are all these new lawyers for? The person who presided over most

20 HM Procurator General and Treasury Solicitor, Resource Accounts 2008–2009, p.61: [www.tsol.gov.uk/Publications/scheme\\_publications/finance/Resource\\_Accounts\\_2008–09.PDF](http://www.tsol.gov.uk/Publications/scheme_publications/finance/Resource_Accounts_2008–09.PDF)

of this increase, the former Treasury Solicitor Juliet Wheldon QC, stated in 2001 that there were a number of factors “supporting the view that business will expand”, including the “increasingly litigious society in which we live”.<sup>21</sup>

The Human Rights Act is not the only factor fuelling the rising cost of Britain’s entitlement society. Changes made to the regulation of Conditional Fee Agreements, more commonly known as “no win, no fee” have increased costs for government and businesses, while making a small number of lawyers extremely wealthy.

Law firms have developed whose sole practice has been in pursuing claims that often have little legal merit, but which will almost certainly be settled. Insurance companies or public authorities, who are often on the receiving end of such claims are anxious not to risk a defeat in court, which will land them not only with a bill for compensation and their own legal costs, but also with a bill for the claimant’s costs – and a substantial success fee (often 100% or more of the original bill) to fund the no win, no fee lawyers.

In an effort to raise additional funds for treating patients, hospitals and GPs’ surgeries have in recent years started to sell advertising space in their public areas; a practice which in some cases spectacularly rebounded on them. Claims farming lawyers proceeded to use the advertising space to attract business for medical negligence claims. In 2009–10 the NHS estimates that it will pay out £800 million in compensation claims. Astonishingly, 48% of that sum will disappear into the pockets of lawyers, not the patients who suffered the negligence.<sup>22</sup> In one case a Lancashire man awarded £1,250 in damages for an industrial accident ended up with a bill for £2,400, his entire award being dwarfed by success fees.<sup>23</sup>

Another feature of the entitlement society has been the steadily increasing legal aid bill, which has risen by 5% a year, in real terms, since the Government came to power; and which now stands at £2 billion. Significant sums are being spent on cases brought by those in prison who believe that the state owes them something it is refusing to provide. The amount of legal aid spent on cases brought by prison inmates rose from £1 million in 2001–02 to £22 million in 2008–09. These included double murderer Dennis Harland Roberts, who sexually assaulted one of his victims as she lay dying. He was granted legal aid to sue the Ministry of Justice for refusing him cosmetic

21 *The Independent*, 27th February 2001: [www.independent.co.uk/news/uk/crime/even-defeat-can-be-very-interesting-693682.html](http://www.independent.co.uk/news/uk/crime/even-defeat-can-be-very-interesting-693682.html)

22 *The Times*, 18th December 2009

23 Hynes, Steve and Robins, Jon, *The Justice Gap: whatever happened to legal aid?*, Legal Action Group 2009

surgery to remove a birthmark – and won.<sup>24</sup> Charles Hanson, serving a life sentence for murdering his wife, won the right to have his haircuts paid by the state while on day release.<sup>25</sup>

As a result of the increasing costs of legal aid, the Ministry of Justice has proposed in a consultation paper to slash the budget by 20%.<sup>26</sup> But it isn't dubious cases, such as those brought by prisoners demanding free haircuts, that are the target of these changes. One of the proposed cuts will prevent some people acquitted on criminal charges from reclaiming their defence costs. In future, innocent people will have to bear the cost of being tried on criminal charges of which they were acquitted. Their human rights, it seems, come a poor second to those of convicted murderers.

How did we get into this mess? In 2000 the Government made personal injury claims ineligible for legal aid, expecting accident victims to rely instead on no win, no fee lawyers. The result has been a disaster, as the Government has simultaneously managed to fuel a compensation culture, which has cost the public and private sectors dear, and meant that genuine accident victims have found themselves having to put their case in the hands of often inexperienced and undertrained claim handlers, rather than their normal high street solicitor. The emergence of ambulance-chasing firms was completely foreseeable – such firms already existed in the US where no win, no fee arrangements were an established part of the legal process.

The ending of legal aid for personal injury claims did not even save a great deal of public money. In 1999–2000 personal injury claims had cost £178.3 million, but £124.7 million was reclaimed from unsuccessful claimants. The total saved by ending legal aid for personal injury claims, therefore, was £53.6 million – a sum dwarfed by the explosion of legal aid in other areas.

## The discrimination industry and its costs

The Government has passed acts to outlaw discrimination on the grounds of sexuality, religious belief, disability and age discrimination, either at work or in the provision of services, or both. Countering discrimination is a desirable objective, but is legislation really the best way to tackle the problem? The result of the discrimination has been an avalanche of cases, many of dubious merit, which have cost the taxpayer and businesses a fortune. As we will

24 *The Times*, 3rd September 2009

25 *The Guardian*, 17th May 2009

26 Ministry of Justice: [www.justice.gov.uk/news/newsrelease200809a.htm](http://www.justice.gov.uk/news/newsrelease200809a.htm)

see in a later chapter, the public sector has borne the biggest costs from this legal beanfeast.

Awards made by tribunals in discrimination cases have swelled to a far higher level than employees would have received had they been unfairly dismissed for other reasons. The median award by an industrial tribunal in an unfair dismissal case in 2008–09 was £4,269 and the maximum award was £84,005. Where race discrimination was involved the corresponding figures were £5,172 and £1.35 million. Where sex discrimination was involved they were £7,000 and £113,106 and where sexual orientation was involved they were £15,351 and £63,222.<sup>27</sup> In one case a lawyer who worked for the Crown Prosecution Service won £600,000 after being dismissed for cracking a joke in a Bradford court, in the wake of the 9/11 attacks, that she was a friend of Osama bin Laden. The final bill to the taxpayer, taking into account the costs of a 13-month trial, exceeded £1 million.<sup>28</sup>

The excessive size of awards has in many cases frightened businesses into settling claims of dubious merit rather than seeing them reach a tribunal. It has also created a new phenomenon where serial litigants attempt to make a fortune out of being turned down for jobs. In one case a 50 year old woman is alleged to have made £100,000 by claiming age discrimination against 22 firms of chartered accountants who had advertised for “recently qualified” applicants. In spite of the obvious flaw in her case – accountants can train and qualify at any age so there should have been nothing to deter her from applying on account of her age – most firms paid out compensation to avoid what they feared would be the lottery of an employment tribunal.<sup>29</sup>

The Government has sought to justify each piece of legislation by claiming, perversely, that it will benefit business – the conceit being that employers would suddenly wake up to the potential offered by a whole new group of employees whom they had never previously thought of employing. It is a nonsense: employers in successful businesses are quite capable of making their own minds up who would make the most effective employee, and it is clearly in their interests to make that decision on merit, not on colour, sexuality or age. It does not benefit them to have that choice made for them.

Much disability legislation was pushed through with little consideration for its effects on business. The Disability Discrimination Act forced the owners of business premises to provide a full and equal access to disabled customers,

27 *Tribunal Services, Employment and EAT statistics 2008–09*

28 *Daily Telegraph*, 5th September 2008

29 *Daily Telegraph*, 2nd December 2008

with the threat of hefty compensation to claimants who felt they had been deterred from entering. The Government claimed to have consulted with 200 different bodies, yet only two of these – the British Chambers of Commerce and the Licensed Victuallers Association – represented the owners of premises. The rest were quangos, pressure groups or trade bodies, such as the Contract Flooring Association, who had something of a vested interest in the legislation. The burden fell disproportionately on smaller businesses, such as the owner of a Suffolk caravan park ordered to pay a disabled couple £2,000 in compensation and go on a “disability awareness” course after he suggested to the claimants that they would be better making a booking for June rather than April because their wheelchairs would be less likely to get stuck in the mud. The irony was that the owner was himself disabled.

In legislating against discrimination the Government has chosen a highly destructive course. One claim can destroy a small business. Businesses are not encouraged, for example, to make provision for the disabled: they are frightened into it. Those which are found to be in breach of the regulations are subjected not to fixed fines but to unlimited awards based on supposed hurt feelings experienced by claimants.

Why does tackling discrimination in the workplace have to be so combative? It doesn't. There are certain things – such as racist abuse and the adverts for flats in 1950s London saying “no blacks” – which are rightly illegal. Workplace discrimination laws on the other hand have gone too far, and we need a more proportionate approach. They impose a huge cost on business and are counter-productive in that they create a disincentive to create new jobs.

### Action points

- The UK should leave the jurisdiction of the European Court of Human Rights.
- We should take action to clamp down on the no win, no fee personal claims industry, and review the decision to take away legal aid for personal injuries.
- Replace unlimited damages in discrimination cases with fixed fines.
- Ensure discrimination legislation is enforced in a proportionate way.

## 4

## Changing the Culture of Government

Since 1980 the role of government in the economy has completely changed. In the 1970s the Government owned and ran much of industry. It seemed only natural that coal, steel, water, electricity, British Rail, British Airways, the National Bus Company, British Leyland and British Aerospace were in government hands. During the 1970s several exhausted industries flopped into state ownership and the Government ended up running everything from Rolls Royce to shipyards, from two travel agents (Lunn-Poly and Thomas Cook), to the chain of pubs it already owned (Carlisle & Scottish).

From the 1980s onwards, governments all over the world privatised state owned industries. In many ways this was a runaway success. In the decade following privatisation, BT increased its productivity by 15% a year – reducing its staff from 238,000 to 130,000. British Gas increased its productivity by 6% a year, reducing staff from 88,500 to 36,000.<sup>30</sup>

The fall of the Berlin Wall in 1989 appeared to settle the argument about whether capitalism or socialism was best. It seems almost inconceivable now that government will directly own and run an industry again. At the same time it still seemed natural to most people in Europe that government should provide all kinds of public services – health, education, museums and libraries. And some of the privatisations of the last 30 years have been challenged. From PFI hospitals to rail privatisation, many people are uneasy about the role of the private sector in public services.

This chapter looks at the management of public services. In the modern world not all public services are provided by the public sector. The govern-

30 Martin, S and Parker, D, *The Impact of Privatisation: Ownership and Corporate Performance in the UK*, Routledge 1997

ment might pay private companies or not-for-profit organisations to do things for people. Or it might put the money or a voucher in people's hands and allow them to choose whom they want to receive a service from. Or it might regulate private companies and compel them to provide a particular service, or charge a particular price.

And, even where public services remain in old-fashioned public ownership, politicians have all tried to apply lessons from the private sector to make them more dynamic. Or at least, what they think are lessons from the private sector.

## Marx versus the market

There are lots of different reasons why market forces might do a better job of providing goods or services than politicians can. Some typical arguments are:

- Competition and the profit motive spur innovation, and innovation is the key to productivity and economic growth. Creative destruction weeds out weak management.
- Only markets and the price system can really find out and respond to what people want. In the absence of real price signals, politicians and central planners are left blindly trying to guess what people might want, and how much of it to produce.
- The absence of competition and profit lead to weak management more generally, which is reflected in: over-staffing, low levels of morale and effort, waste and failure to control costs.
- Weak politicians can interfere in rational decisions. Politicians are short-termist and under-invest if they think people won't notice. They fail to make tough choices for political reasons, and are risk averse.
- Where the beneficiaries of a decision are concentrated, but the costs are dispersed, politicians may favour vested interest groups over the wider public good, for electoral reasons.

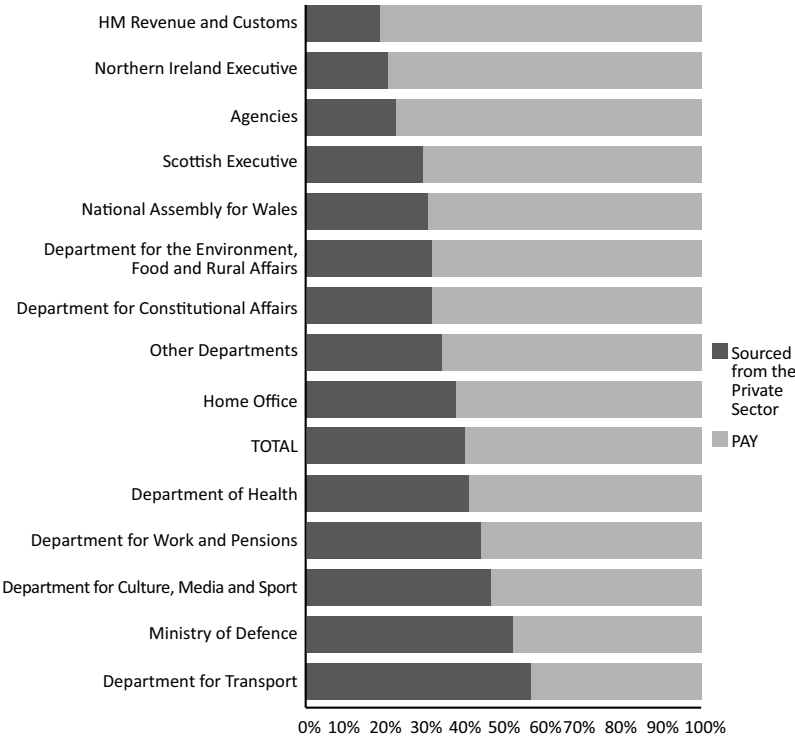
These reasons explain why, generally speaking, opening up public sector monopolies to competition, or privatising state-run facilities, is likely to lead to better results. And there are still many elements of the public sector which could be exposed to competition from the private sector. For example, though Britain has built a few new private prisons, which are performing better than their public sector equivalents, we have never privatised an existing prison.

Warranted police officers (on expensive salaries) are often sent to do tasks that could be outsourced to the private sector, such as cleaning their cars.

There is still a lot more than could be done to open up public sector monopolies to competition. In fact, overall, the public services industry accounts for a larger proportion of Britain's economy than Sweden's, a country that is normally considered far more statist.

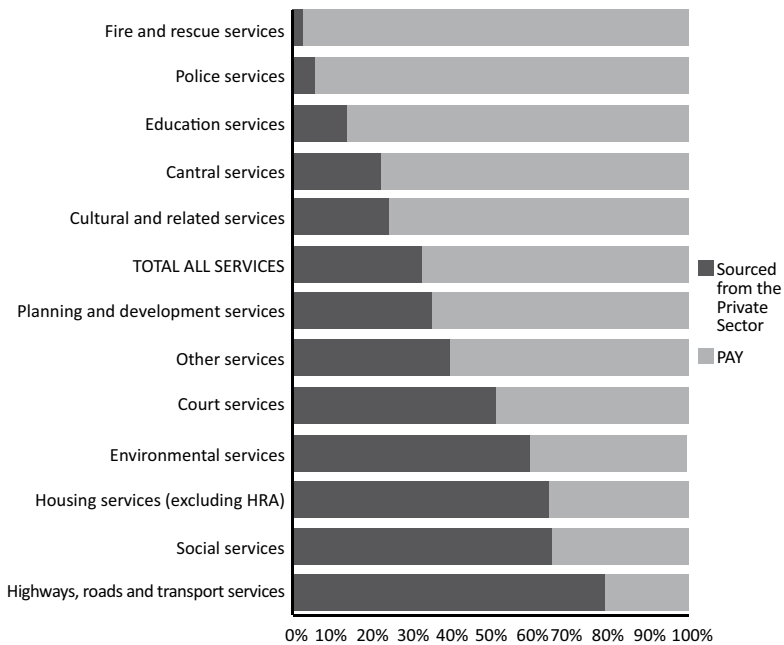
The use of private providers varies hugely across different public services both nationally and locally. There are still many untapped opportunities.

**Figure 1: The use of source from the private sector across selected central government departments<sup>31</sup>**



31 Public Services Industry Review, BERR 2008

**Figure 2: The use of source from the private sector across selected local government services<sup>32</sup>**



## Beyond privatisation

But there are times when the market might not be right. No one suggests that we should privatise the Army. We aren't going to introduce a competitive market in policing.

Obviously, how people think about the role of the public sector depends largely on history and what they have grown used to. For example, in social-democratic Denmark, the fire and ambulance services are privatised and no one bats an eyelid. Sweden has had profit-making private school providers in the state education system for nearly two decades. This is controversial in Britain, but not in Sweden. In supposedly statist France, water companies have always been private.

But there are a large number of services where many people want the state to be involved in order to affect the "values" of that service. The role of the state

is often seen as encouraging fairness – for example, equality of opportunity in education. In other cases, people are worried about being ripped off for services, the value of which they can't judge for themselves, such as healthcare. Sometimes the public want to see the state involved in a particular sector to ensure their safety; although that in itself shouldn't be an absolute bar to private sector involvement – it used to be used as an argument against privately owned airlines.

Often it seems that attempts to graft private provision onto traditional government-run public services have failed. For example, fragmenting the ownership of the railways between owners of the track and multiple train operators seems to have caused problems. Greater efficiency has too often been cancelled out by extra bureaucracy and regulation, with millions wasted drawing up incredibly detailed contracts to deliver PFI projects.

Partial privatisation can lead to incoherence: for example, the NHS was supposed to start buying in operations from private independent treatment centres. But it banned NHS staff from working in these centres. As a result, private operators had to fly in surgeons from overseas (often for the weekend), quality suffered, and the experiment failed.

One way or another, it seems that privatisation is unlikely to solve every problem, and many services will still be run by government in the future.

## A new public sector?

In the 1990s policy-makers reflected on the success of privatisation and wondered whether they could get organisations that were still government-owned to perform better by importing techniques from the private sector. After all, they decided, there is no fundamental reason why a public sector organisation cannot subject itself to the same processes of improvement as do private businesses.

There were two very different schools of thought about what lessons to draw from the private sector.

In 1990 David Osborne and Ted Gaebler published “Reinventing Government” – an incredibly influential book which drew lessons from the way America's central and local government had adapted to become more efficient, less bureaucratic, and – crucially – more entrepreneurial. They recommended ten principles.

Several of the principles are about allowing public servants greater autonomy and discretion. Others are about encouraging them to innovate and think for themselves about whether there is a better way to achieve what they are trying to do. Others still are about persuading politicians not to “run” services on a day-to-day basis, but to adopt a more strategic role (steering not rowing).

### Reinventing government

- |  |  |
|--|--|
| 1. Steer, not row  | 6. Meet the needs of the customer, not the bureaucracy                                 |
| 2. Empower communities to solve their own problems rather than simply deliver services | 7. Concentrate on earning money rather than spending it                                |
| 3. Encourage competition rather than monopolies  | 8. Invest in preventing problems rather than curing crises                             |
| 4. Be driven by missions, rather than rules  | 9. Decentralise authority  |
| 5. Be results-orientated by funding outcomes rather than inputs                        | 10. Solve problems by influencing market forces rather than creating public programmes |

This manifesto inspired Bill Clinton, when he was President, to set up the National Performance Review (NPR) which inspected government departments and shredded out of date rulebooks. Unsurprisingly, the problem of red tape is worst in the public sector, and the NPR found many extraordinary examples of departments tying themselves in knots.

Among the things the report uncovered was a Federal Aviation Authority post being maintained at an entirely disused airbase. Meanwhile, the Navy was found to be acquiring the spare parts for its vehicles through a central purchasing operation which was keeping 10% of its fleet out of service at any one time. Forestry managers in Oregon were found to have 53 separate budgets covering such things as fence construction and fence maintenance. In order to transfer money between budgets they were required to gain official permission: a bureaucratic process which was consuming up to 30 days each year.

The report attacked inefficiencies directly. It recommended 1,250 specific actions to save \$108 billion over five years, including the abolition of 65 regulatory agencies, the trimming of 16,000 pages of regulations and the elimination of 250 obsolete government programmes such as the Tea Tasting Board. Within days of the publication of the report President Clinton was issuing directives to reduce the government workforce by 252,000.

### Drawing the wrong lessons?

In the UK something different happened. In opposition, Tony Blair was favourably impressed with the way in which large companies like BP and Shell had

used internal targets to drive up performance. Seeking to meet the growing expectations of the British people for tangible improvements in public services, Mr Blair promised that he would set binding performance targets. And powerful inspectorates would drive up performance.

In 1996 he told the Labour Party Conference: “Recently, the boss of one Britain’s biggest and most successful companies said to me that companies don’t just have prospectuses; they have performance contracts too. A contract that sets clear targets and priorities and allows public and company to measure success or failure. He dared me to publish a performance contract for Government. Britain plc. Today I do that.”

In government Michael Barber became the great guru of “targetology”. Having pushed through the National Literacy Strategy at the Department for Education, Barber was invited to head the Prime Minister’s Delivery Unit, which set targets for all the different parts of the public sector. Instead of the profit motive or competition, standards would be pushed up by ambitious targets and demanding inspections. The public sector would be thrashed into higher performance.

## Targetology in action

It did not take long before the reality of targetology became apparent: it imposed an extra administrative burden without establishing any real system for improving performance. Bernard Marr of the Advanced Performance Institute (API), which has studied the performance measurement systems in the public sector extensively, put it thus: public sector organisations “will start measuring things that are easy to measure and then, when they have collected mountains of data, scratch their heads and wonder what to do with it”.

Moreover, many of the Government’s targets turned out to have counter-productive results. Too often they were chosen on the basis of how they could aid political presentation, without any real thought as to what they involved or how they could be manipulated to the detriment of the service in question. For example, the Department of Health set a target demanding that GPs should not keep patients waiting more than 48 hours for an appointment. The target was set without any consideration of the fact that sometimes patients want to make appointments more than 48 hours in advance – when they are told to come back in a week’s time, for instance. Surgeries quickly realised they would not meet the target unless they prevented patients doing this. Others stopped making appointments altogether and demanded that patients turn up

and wait – a guaranteed way of hitting the target but hardly an efficient use of the patient's time.

Like many targets, the Government's maximum waiting time for surgery was set without considering the wider implications. The result was that patients requiring non-emergency surgery were put in a queue above those requiring emergency operations. One group of patients who lost out were elderly people who had suffered hip fractures. The outcome for such patients is far better if they are operated on within 48 hours. Yet in 2008 the British Orthopaedic Association reported that they had to wait longer as direct result of the 18-week target.<sup>33</sup>

The Government's approach to targets ran contrary to an important principle in performance management: that you do not use performance indicators as targets. If you tell managers which indicators you are using to measure their performance you incentivise them to manipulate their service in order to meet that target.

It is good to measure performance. Often, publishing the data on performance will encourage laggards to catch up, or make middling performers less complacent. Problems arise when one measure of performance is preferred to others and made into an official "target". Instead of a well rounded assessment of overall performance, targets can lead to an unbalanced pursuit of one measure, or attempts to fiddle the statistics. If lots of targets are set, innovation is squashed and managers feel as though they are trying to pull in hundreds of directions at once.

Many targets were simply bizarre. The Atomic Energy Authority was set a target to improve its positive media coverage by precisely 43.7%. The Meat and Livestock Commission was set a target for maintaining the number of people who said that they eat as much meat as ever. Reaching the target would presumably not be appreciated over at the Department for the Environment and Rural Affairs (Defra), which, in 2007, was considering a campaign to persuade Britons to eat less meat in order to benefit the environment.

Private businesses set themselves targets, but the point about the Government's targets is that they are plucked from the air by officials in central government. The absurdity of many government targets has not been lost on public sector workers, who have responded by failing to take data-gathering exercises seriously – with the result that much public sector data is of dubious quality. An API survey exposed the damning cynicism with which performance management is treated in the public sector: of 336 participants, over

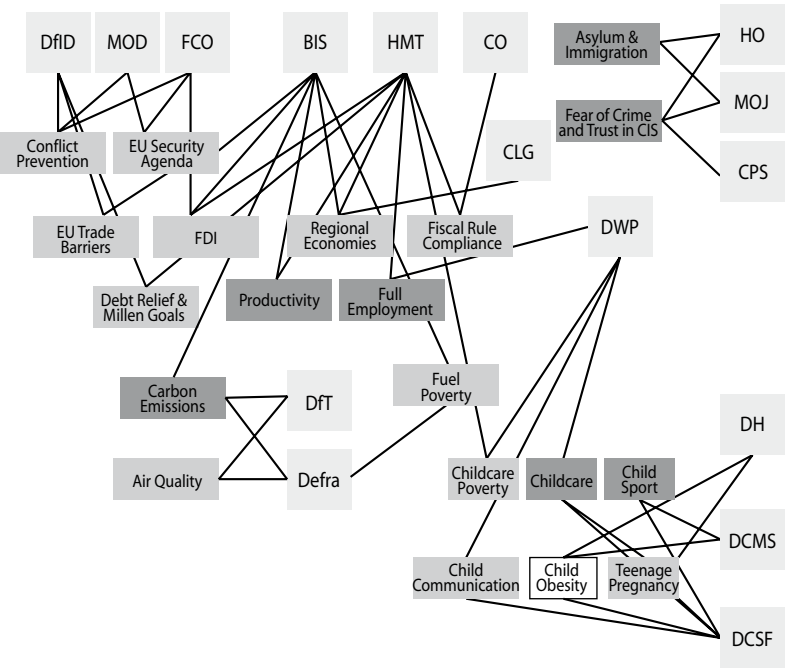
33 BBC News, 24th December 2008

70% admitted that people in their organisation had occasionally fabricated performance data.<sup>34</sup> This was higher than in any other country.

**Figure 3: A tangle of targets**

The Government’s main targets are the Public Sector Agreements (PSAs). These are the main missions that different departments are supposed to be pursuing. But many are often rather vague, such as, “Build more cohesive, empowered and active communities” (PSA 21) or out of officials’ control, such as PSA 30: “Reduce the impact of conflict through enhanced UK and international efforts.”

Furthermore many of these targets are shared between departments, so it is unclear who is supposed to be held accountable for what. It’s no surprise that the Institute for Government noted that even fewer of the shared targets were being met. Or that many public sector managers are baffled about what they are supposed to be doing. This chart from the Institute for Government shows why it is unclear who is accountable for which target.



34 Strategic Performance Management in Government and Public Sector Organisations – a global survey, API

## Better management structures, not regulation and inspection from outside

Inspection is good way to flag up clear failure: schools with poor exam results, hospitals with high post-operative death rates etc. But it is a poor system for achieving gradual improvement. For example an Ofsted inspector might judge a school to be failing, but will not work with the staff of that school over the coming years to improve it. And School Improvement Officers, parachuted in from local authorities, are far too few in number meaningfully to manage teachers; they are like a low-budget version of the outside consultants that private companies hire.

Successful businesses, by contrast, work on a quite different model: they train, observe and manage internally. They function by using a direct chain of command and responsibility, with each manager in the chain answerable directly to the one above him. A private business wanting to improve its efficiency would not start, as public sector reforms have frequently done, by setting up an office 200 miles away to regulate the activities of its staff, thus creating extra jobs and organisational complexity in the process. It would be much better to start by asking: can we simplify the structure of this business, cutting out waste, duplication and setting up a more direct and logical form of management structure, where everyone is answerable to the person above them?

Take education. Headteachers complain frequently of the bureaucratic burdens placed upon their schools. They are subject to endless initiatives and directives from Whitehall. They are obliged to spend many hours preparing for Ofsted inspections. Those which are not academies or do not have foundation status are also subject to controls from the local authority.

Yet this excessive regulation and inspection is really a symptom of the Government's lack of real power over schools. No one, either in central or local government, has direct control over headteachers. Heads are employed by boards of governors: unpaid volunteers who may have no background in either education or a business. No private company would trust the selection of such key personnel to a team of unpaid volunteers, so why do state schools do this?

In reality the structure of state education is an accident of history. The 1944 Education Act effectively took the charitable and amateur system which existed and nationalised it. We are so used to this that it is difficult to see how odd it is. But the equivalent in another field would be to have no supermarkets or chain stores but only one-off, stand alone, corner shops. This is

absolutely not to say that we should therefore nationalise and centrally control all schools. But it is interesting to see that where school choice exists, schools often tend to form chains to benefit from better management.

Much of the regulation, inspection and associated bureaucracy imposed on schools in order to “drive up standards” could be abandoned if schools were part of a proper management structure. The mantra of Tony Blair’s time in Government was “standards not structures”. But the evidence from other countries shows that a better structure with proper management will help to drive up standards.<sup>35</sup>

## Freeing the public sector

There is little point trying to hold public sector workers and managers accountable if they don’t have the power or freedom to improve the services they run. But across the entire public sector managers are not free to manage properly.

Our system of government is good at handing out responsibility, yet it withholds the power required to execute it. That is wrong. The people to whom the state gives responsibility – be they ministers, teachers, NHS managers or doctors – should be granted every means they need in order to exercise that responsibility.

If we want public sector workers to take the initiative, to accept responsibility and be motivated, then we need to give them the freedoms which are taken for granted in the private sector – a subject which we will return to in the next chapter.

## Charging: using market forces in the public sector

Improving management in the public sector is one half of the challenge. The other half lies in creating a more market-based system for dispensing public services. At present the public sector operates as a large patrician charity: it decides what services the public needs and then appeals to people to make use of the services provided. The public themselves play little role in the process. There is no coherent policy to determine what services are provided. The state offers free education for children aged between 5 and 18, but only if the school is owned and run by the state. It offers free nursery places for 3 to 4 year olds, but in this case will allow parents to spend the money at private as well as state-run nurseries. NHS patients may visit their GP for free, but if their income is

35 Meyland-Smith, D and Evans, N, *A guide to school choice reforms*, Policy Exchange 2009

over a certain level they must pay for prescribed drugs – in many cases they must pay more than the actual cost of the drug. There is no charge for staying in a hospital, nor for any drugs dispensed there, however. NHS patients, on the other hand, must pay a flat rate to visit a dentist, and also cover the cost of any additional treatment offered within that treatment cycle. If NHS patients are transferred to a nursing home, they will, if they have the savings or assets, be made to pay for the full cost, even to the point of being compelled to sell their home.

The over-60s pay nothing for using the local bus services, even those 200 miles from where they live. Everyone else, including the under 16s, must pay – unless they happen to live in London, where the under 16s may travel free. Motorists pay taxes to keep a car and buy petrol, but the marginal cost for travelling on most roads is zero. Entrance to national museums and libraries is free. Swimming is free for the under 16s and the over 60s. Yet the use of other leisure facilities must be paid for.

Free bus travel for the over-60s is an example of how this top-down approach can go wrong. It was supposed to cost £1 billion a year. But the Department for Transport hugely underestimated the number of people who would want to take advantage of the scheme. As a result, many councils have found themselves out of pocket, while bus operators are not being reimbursed for the full cost of travel and have been forced to cut services and increase fares for paying passengers.<sup>36</sup>

What is missing is a market mechanism to link supply and demand in public services, to ensure that the two are kept in equilibrium. This does not mean that services such as health and education cannot be free at the point of delivery; only that we should think about the use of charging to ensure that public services are used more efficiently.

For example, why don't we encourage people to avoid road bottlenecks by charging more to drive through them? Or impose super-peak fares on public transport to smooth out demand and reduce the overall cost. Instead of paying to pick up litter and empty the bins, why don't we create a deposit scheme that rewards people for recycling? And a proper market for waste collection and disposal that will encourage people to treat waste as a resource?

We have introduced university fees, which are likely to rise over time. The NHS charges not just for prescriptions but also requires "co-payments" for some treatments which are not otherwise available through the NHS. This is likely to expand over time. We could use payments to discourage anti-social

activities which cost the NHS a fortune: is there any reason why binge drinkers who cost the NHS millions for ambulance callouts and accident services should not pay for the cost of their hospital treatment?

## Putting the consumer in charge

The advantage of charging for what is currently free is that it takes money that the government currently spends for us and gives it back to us to spend how we want.

The fact that services are provided free at the point of delivery does not mean that market forces cannot be employed to dispense those services more efficiently, with the user of the service making the ultimate purchasing decisions. This principle has, in fact, already been applied with some success in one area: social care. Until recently, social care was always provided through social services departments. The result was often unsatisfactory.

Social services tended to provide the care that was most convenient for themselves, but not necessarily for the individuals who needed it. Since 2003, however, local authorities have started to experiment with “self-directed support”. Under these schemes, people with social care needs are given an “individual budget” which they can spend on services in a variety of ways. They can choose the carer they want and the hours for which they wish to employ them – with administrative support provided by the local authority.

The individual budgets programme was tried by 13 English local authorities in 2006–07, involving 959 users of social care services, including disabled people, older people, people with mental health problems and people with learning difficulties.<sup>37</sup> The Department of Health’s evaluation concluded that many users of the programme felt more in control of their lives. This was particularly true of mental health patients and the younger disabled. Older people had greater difficulty with the concept.

Not only had care been better matched to the needs of the individual, it had also saved money. In Northamptonshire, the average annual cost of the support previously given was £28,206. After the introduction of self-directed support, an average personal budget of £22,927 could provide the same level of care.<sup>38</sup>

The same idea could be applied to lots of other services such as post-prison rehabilitation and welfare-to-work services. It would be particularly well-suited to training, as the huge budget for skills is currently spent on

37 Department of Health website, *Individual Budgets pilot programme*, 12th November 2009

38 Richards, Sarahlee, Waters, John and Frisby, Brian, *This time it's personal: making self-directed support a reality for people with learning disabilities in Northamptonshire*, Northamptonshire County Council

what a quango thinks employees want – rather than on what they actually want themselves.

In cases where it would not be appropriate for users of public services to be given their own budgets, there is scope to make public services more responsive to need through establishing a principle whereby funding follows the user. GPs' surgeries and schools are services which could be funded via payments which come attached to the people who use them. You choose your children a school or you sign on at a surgery – and the chosen school or surgery receives a corresponding direct payment from the government.

This would create an effective market structure for public services. Good schools and surgeries would gain money to expand; bad ones might have to close. A further advantage is that the neediest could be granted a premium. GPs would be encouraged to set up surgeries in poorer areas; private companies would be encouraged to set up schools catering for under-privileged children.

## Stable management for public services

One group of public sector workers who certainly cannot be accused of time-serving are government ministers. Ministerial reshuffles are too frequent and are increasingly carried out for short-term political purposes.

Under the current Government there have been 26 ministers and seven Secretaries of State for Transport. There have been more transport ministers than miles of new motorway built. When ministers change so rapidly, it is very difficult for them to develop real expertise. Ministers have little or no knowledge of the areas for which they are responsible. Since the war, the average time that a minister has stayed in a post is under two years. Compare this to Tesco whose board has a combined 170 years of experience with the company and whose executive directors' tenure averages 18 years.<sup>39</sup>

Public services are often forced to perform complete reversals of direction when ministers change. The result is a lack of commitment and leadership at the top, and a blaze of initiatives to steal the headlines followed by little action to see them through. As angry defence chiefs pointed out after the resignation of John Hutton ahead of that reshuffle, they had been forced to work with four different defence secretaries in four years. The former chief of defence staff Field Marshall Lord Bramall went as far as to call it a "dereliction of duty under fire". No organisation can be effectively led with such a rate of churn. More stability must be brought to government appointments.

39 Barbour, P, *Better Government Position Paper*

## Stop creating quangos to duck responsibility

As ministers pass through jobs at ever-faster rates, the Government increasingly seeks to escape responsibility for its activities by subcontracting them to distant agencies and quangos. Remarkably, there are now 50 quangos connected to the healthcare field. Doctors, let alone the taxpayer, will be unaware of the existence of many of them.

Before taking office Gordon Brown promised a “bonfire of the quangos”, and Tony Blair promised to consign them to “the dustbin of history”. But instead spending on quangos rose from just over £21 billion in 1997 to over 46 billion in 2009. Quangos have taken on an extra 15,000 staff in the last three years alone.

Often quangos are created just to give the impression that the Government is serious about doing something. For example, after the television chef Jamie Oliver kicked up a fuss about the poor quality of school meals, the then Department for Education and Skills established the “School Food Trust”. It employs ten civil servants, including a chief executive paid £85,000. Some quangos exist to campaign and put pressure on government. For example, the Sustainable Development Commission describes itself (rather paradoxically) as “the Government’s independent watchdog on sustainable development”. This is an important issue, but why should the Government pay people to lobby it?

In other cases the point is to try and protect ministers from having to take difficult decisions. For example the Prescription Pricing Authority takes one hot potato out of the hands of ministers. The Qualifications and Curriculum Authority (QCA) took the rap for the fiasco over SAT exams. The Rural Payments Agency was blamed for the maladministration of CAP subsidies.

The lack of transparency around quangos is a problem. The sheer number of different bodies makes it difficult to keep track of what is being spent, and leads to duplication. From the “Zoos Forum” to the “Government Hospitality Advisory Committee for the Purchase of Wine” there is a huge amount of obscure activity being quietly financed by the taxpayer. Many quangos set up as arms-length-companies are exempt from Freedom of Information requests, making it impossible to see how our money is being spent. Worse still, ministers control the appointment of non-executive directors of quangos (particularly their chairmen) without the normal processes of parliamentary scrutiny applying, leading to accusations of cronyism.

The growth of quangos has added to the inflation in public sector pay. Many agencies are effectively disguised as private businesses. They have boards, glossy reports and “chief executives” – with salaries to match jobs of the same

description in the private sector. Yet they have no shareholders to hold them to account. It is time that this practice ceased, and is reversed. If a public service is going to remain as part of the state it should be led, not by a functionary disguised as a chief executive, but by an elected minister accountable to Parliament.

### **Action points**

- The use of private providers varies hugely across different public services both nationally and locally. There are still many untapped opportunities to expose public sector monopolies to private competition and we should explore them.
- The way targets have been used in recent years has not helped to drive up standards. The system of PSAs is confused and fails to increase accountability. Many should be abandoned.
- We should accept that there are limits to the ability of outside inspection, rather than internal management, to drive up standards.
- “Standards not structures” failed. In fact getting the right structures in place is essential.
- There is no point trying to hold public service managers to account unless they are given the freedom to manage, and the powers they need to drive up standards.
- The use of charging is incoherent at present. There is room to expand the scope of charging in some areas.
- There is also potential to give people their own personal budgets in several areas, which could increase choice and competition, and allow people to choose the services they want.
- Even where people are not given their own cash budget, we should use choice in public services to drive up performance – for example in health and education.
- High turnover of ministers makes for poor management and reduced accountability, and should be reduced.
- We should prevent quangos and agencies from being used to shield ministers from accountability.

# 5

## Reforming the Public Sector

There is no fundamental reason why a business or organisation should perform less well just because it is in the ownership of the state. Yet by so many measures – such as productivity, industrial relations, absenteeism – the state-owned sector of the economy performs demonstrably worse than the private sector, and not just in Britain. The debilitating effect on the economy of public spending is a well-known and international phenomenon. A study by the European Central Bank has quantified the effect: for every 1% increase in the share of GDP accounted for by public spending, GDP in a European country can be expected to fall by 0.13%.

This is directly linked to lower performance on the part of workers throughout the public sector. In Britain, productivity has been quantified by the Office of National Statistics, which finds that it fell by 3.2% in the decade 1998 to 2007 – a period during which private sector productivity rose by 22.8%.

There are two key reasons for underperformance in the public sector. It is partly the result of the structural factors dealt with in the previous chapter. But it also has much to do with the mismanagement of the workforce. The privatisations of the 1980s and 1990s moved large numbers of people out of the public sector, but unfortunately did too little to reform attitudes and working practices in what remained of it. In this chapter we will look at the symptoms, the causes of the problem and the underlying obstacles to improvement.

### Diagnosing the problem

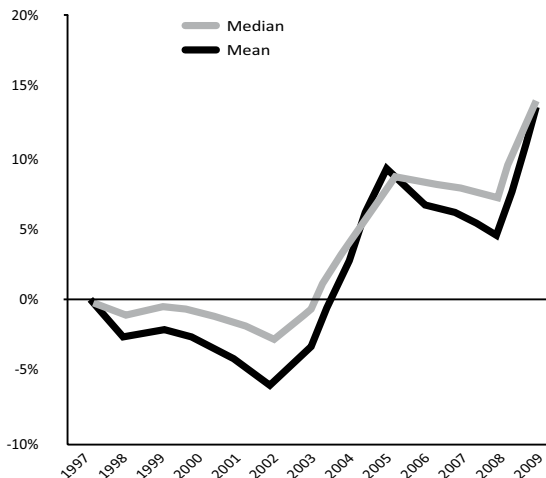
1. **The Symptoms:** Rising costs; falling productivity; high sickness rates; industrial strife and working days lost; low morale; low innovation.

2. **The Causes:** Pay and promotion are automatic and don't reflect effort or ability; it is difficult to sack people – no fear of failure or redundancy reduces incentives, and makes it difficult to weed out weak performers; it is difficult to reward higher performers with promotion, or pay increases; there is limited freedom to innovate or achieve.
3. **Obstacles to improvement:** National pay bargaining; pay grades and automatic pay increases based on length of service; high level of union power; high costs and long processes from hiring and firing; lack of transparency about benefits in kind – particularly pensions; the public sector is burdened by a huge number of secondary objectives.

## Public sector underperformance: the symptoms

### i. Rising costs

**Figure 4: Cumulative difference between public and private sector pay growth compared to 1997<sup>40</sup>**



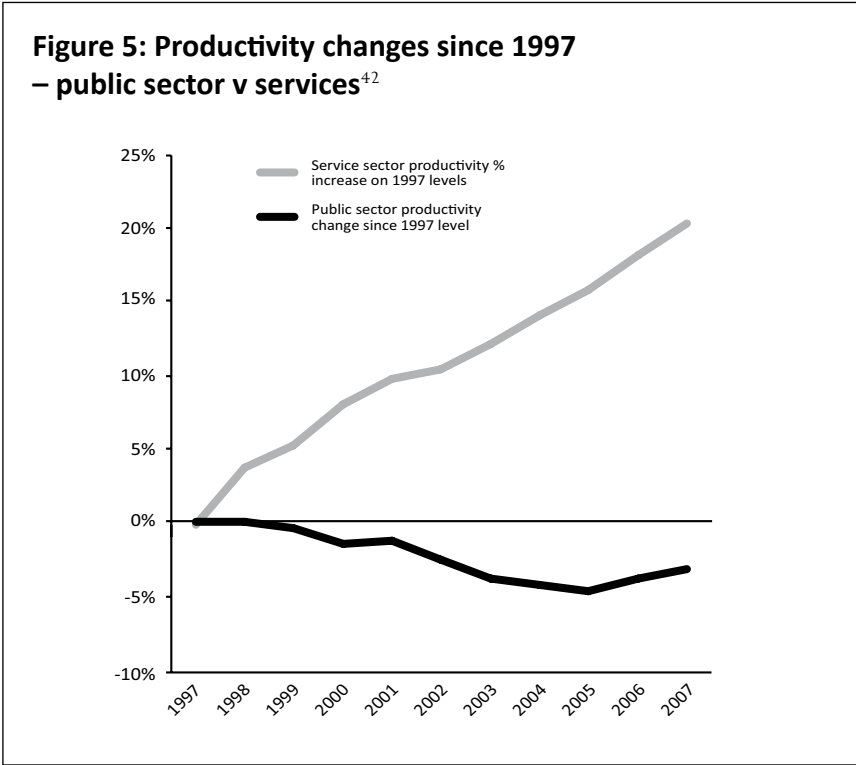
Since 1997 pay has grown nearly 15% faster in the public sector than in the private sector, and average pay in the public sector is now 12% higher than in the private sector.<sup>41</sup>

40 Annual Survey of Hours and Earnings, ONS

41 Median average pay, ONS, Annual Survey of Hours and Earnings

During the first years of relative spending constraint there was little difference, indeed the private sector grew slightly faster. But once public spending started to rise sharply after 2002, the growth in public sector pay has taken off. In total it has increased by around 40% since 1999.

ii. Falling productivity



Ultimately pay should reflect the growth in productivity. The more productive you are, the more you should be paid. But rising public sector pay has been accompanied by falling productivity.

Quantifying levels of efficiency in the public sector poses unique problems not found in the private sector. Whereas companies have easily verifiable metrics for their success or failure, such as profit, revenue, turnover and so on; the public sector has no similar standard.

Nevertheless, the Office of National Statistics has taken great strides towards making accurate qualitative assessment in the public sector, and, while the

42 Public Sector Productivity 2009, ONS

precise figures can be challenged or revised, the overall trend is striking. The ONS' most recent estimate in June 2009 shows a 3.4% fall in productivity between 1998 and 2007 or about 0.3% per year – even after upward revisions for “qualitative” improvements in health and education.

Since private sector productivity improved by 27.9% over the same period, we are left with the remarkable total of a 31.3% gap in productivity between the two sectors.<sup>43</sup> If the public sector had matched the private sector in productivity gains, it would have been £58.4 billion better off.<sup>44</sup>

Even if we compare the public sector to other service industries and strip out high-productivity growth sectors like manufacturing, the difference between public and private is stark.

### iii. High sickness rates

Median working hours have remained consistently higher in the private sector. In 2009 the average private sector working week was three hours longer than in the public sector.

Sickness rates are more than 50% higher in the public sector than the private. The average private sector organisation loses 6.4 days per employee per year through absence, compared to 9.7 days in the public sector. In certain sectors the gap is even bigger. For example, employees in the textile industry take off just 3.7 days compared to 11 days for NHS employees and 10.7 for local government workers. Non-manual telecommunications employees take an average of just 1.2 days off a year compared to 14.8 days taken off by manual NHS workers – a remarkable 12-fold difference.

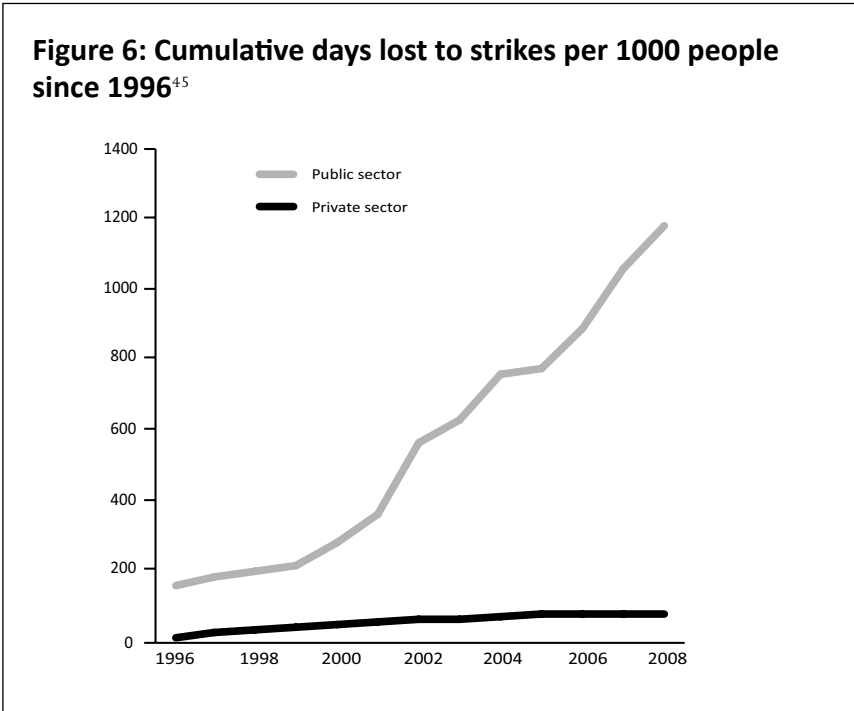
Where action has been taken against absenteeism in the public sector it has proved farcical. In 2004, Royal Mail's 170,000 postal workers were told that their names would be entered in a prize draw to win a brand new Ford Focus or a £2,000 holiday voucher if they managed to get through six months without taking a single day off sick. By doing so it transformed the act of turning up for work less as a duty than as a special achievement worthy of a prize. At the time, 6.5% of postal workers were absent on any one day. They were taking an average of 12 days a year off sick – high even by public sector standards.

Such high sickness rates are not only a problem in themselves, leading to higher costs. They also suggest low morale.

43 The UK's public sector productivity shortfall is costing taxpayers £58.4bn a year, 23rd August 2009, Centre for Economics and Business Research: [www.cebr.com/Resources/CEBR/Public%20sector%20costs.pdf](http://www.cebr.com/Resources/CEBR/Public%20sector%20costs.pdf)

44 Total Public Service Output and Productivity, ONS June 2009

iv. Industrial strife and work days lost



Despite higher overall pay increases, the public sector loses far more days to strike action than the private sector. This reflects several factors, including the much higher concentration of union membership and collective bargaining agreements in the public sector.

v. Low morale

You might think that with higher pay, shorter hours, and less chance of losing their job, people in the public sector would be happier. But it doesn't seem to be so.

According to a study by the charity Roffey Park, nearly 40% of managers in the public sector believed morale was low in their organisation. This compared with 16% in the private sector and 6% in the not-for-profit sector. Too much bureaucracy was identified by half the respondents as the main problem. Poor management was rated second; and more than a third also pointed to lack of recognition as a key factor.

<sup>45</sup> *Labour Disputes, Public and Private Breakdown, ONS Time Series*

## Putting it all together

The direct costs of all these different symptoms are huge. According to one estimate:

“If public-sector workers took the same amount of sick leave as those in the private sector, that would save 3% of their wage bill, which adds up to £6 billion per year. If they worked the same number of hours per week as in the private sector, that would save a further 10%, or £20 billion per year. The same saving would result if the average public- and private-sector employee were paid equivalent wages.”<sup>46</sup>

But they are only the symptoms of more fundamental problems. As Richard Lambert, the Director General of the CBI has pointed out, “If the public sector had matched the private sector’s productivity performance over that period, then we could now have 11% more public services for the same money.”<sup>47</sup> We need to understand why productivity is not higher.

## Public sector underperformance: the causes

### i. It is difficult to sack people

Public sector workers get away with high rates of absenteeism and under-performance because they work in an environment in which there is little fear of failure. This is a common observation among those who have worked in both private and public sectors. Lord Jones of Birmingham was brought into Gordon Brown’s “government of all the talents” in 2007. He was unimpressed by what he found, going as far as to suggest that half the employees of the civil service would not retain their jobs were their ministry a private business. “I was amazed, quite frankly, at how many people deserved the sack and yet that was the one threat they never ever worked under, because it doesn’t exist as long as they have not been criminal,” he says “I was always told [they] will just be moved sideways and they will go off to another department.”

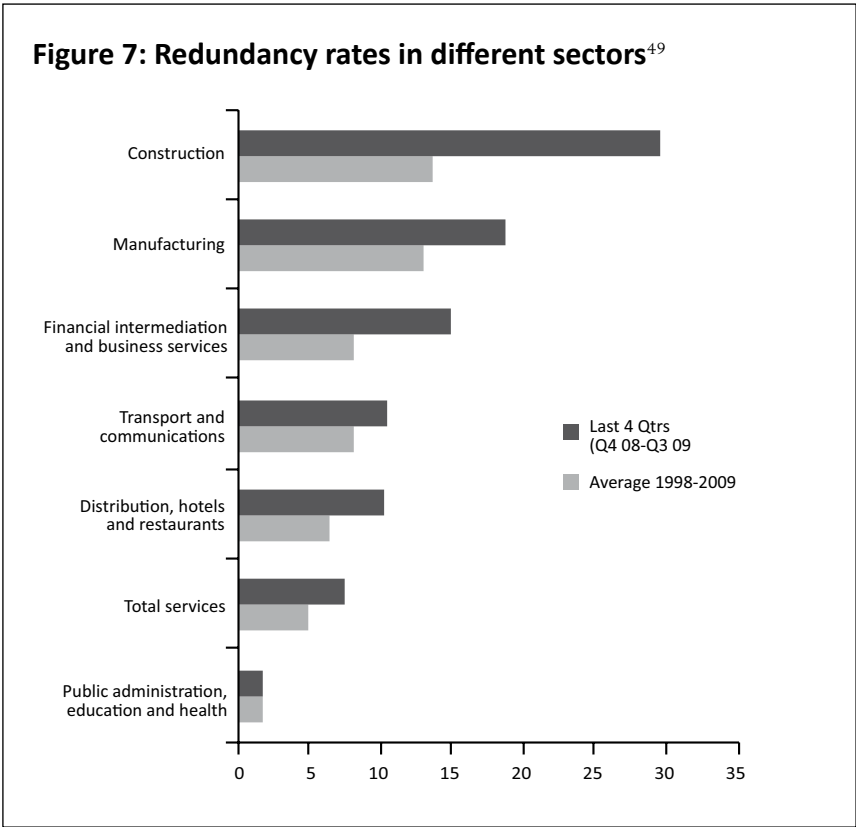
This is particularly important when it applies to underperforming managers. The absence of fear of failure is found in some of the public sector’s most highly-paid employees. Paul Gray, the former chairman of Her Majesty’s Revenue & Customs resigned after his staff lost computer discs containing the personal details, including bank account numbers, of 25 million child

46 Haldenby A, ‘The public sector could save the economy’, *Daily Telegraph*, 5th February 2010

47 Speech, 16th June 2009

benefit recipients. He was quickly rewarded with a £200,000-job working for Sir Gus O'Donnell in the Cabinet Office, leading John McFall, chairman of the Treasury Select Committee, to comment wryly: "instead of falling on his sword he's fallen on a feather bed."

Employees in manufacturing were 16 times more likely to be made redundant during the recession of 2008 and 2009 than public sector workers. But it isn't just the recession. Over the long term, public sector workers are far less liable to face the sack than they would in any part of the private sector.<sup>48</sup>



The civil service is the most extreme example of this. Between 2006 and 2008 about 1% of civil servants took voluntary redundancy.<sup>50</sup> But, according to the Cabinet Office, "There were fewer than 100 compulsory redundancies between

48 The gap is likely to be even more pronounced than the chart suggests because the category Public Administration, Education and Health contains some private sector workers.

49 *LFS Redundancy tables*, calendar quarters, ONS

50 Written Answer to Baroness Crawley: [www.theyworkforyou.com/wrans/?id=2009-07-01a.47.0](http://www.theyworkforyou.com/wrans/?id=2009-07-01a.47.0)

2005 and 2008”.<sup>51</sup> That comes to 25 compulsory redundancies a year out of a total of 525,000 civil servants – a 0.005% chance of losing your job.

You might think that making it difficult for anyone to be fired would be good for morale. In fact the reverse is true. Few things are worse for morale than having to carry people who are making little effort or are badly suited to their jobs – except perhaps working for a boss who is making little effort, or is badly suited to the job.

Strikingly, public sector workers seem to agree. In a large survey of 60 different public sector organisations co-ordinated by the Cabinet Office, just 13% employees disagreed with the statement that their organisation “is too lenient with people who perform poorly here”.<sup>52</sup>

## ii. Pay and promotion are automatic, and don’t reflect effort or ability

Many public workers in effect get two pay rises a year – one based on a negotiated national pay settlement and another based on moving up the point scale as a consequence of being in the job for another year. This occurs largely irrespective of performance and is a key factor in lower public sector productivity.

Most pay scales in the public sector are organised in a grading hierarchy based on skill level and knowledge appropriate for each particular grade and “pay spines” within them. Progression up the pay spine is largely automatic (and, indeed, is often necessitated by contractual obligation). This can apply equally to promotion to a higher grade, so pay and position are largely determined by length of service.

A typical example is that of prison officers. Their national minimum starting salary (£17,319) is increased incrementally through length of service up a national pay spine to a maximum of £25,490, followed by additional long service increments up to £26,433 (plus allowances and supplemented by regional weighting)

Of course, most private sector workers will also increase their salaries as they become more experienced. The difference with public workers such as teachers and many others is the scale of the rise and the fact that it is semi-automatic – indeed, NASUWT describes the scales on its website as “six annual increase points”.<sup>53</sup>

As a result the public sector fails to recognise or reward initiative and hard work. A study by the accountants Deloitte concluded that half the public sector

51 [www.civilservicenetwork.com/features/features-article/newsarticle/redundancy-payments-set-for-reform/](http://www.civilservicenetwork.com/features/features-article/newsarticle/redundancy-payments-set-for-reform/)

52 [www.hmrc.gov.uk/research/ss-spring2009.pdf](http://www.hmrc.gov.uk/research/ss-spring2009.pdf)

53 [www.nasuwt.org.uk/PayPensionsandConditions/England/Pay/MaintainedSchools/index.htm](http://www.nasuwt.org.uk/PayPensionsandConditions/England/Pay/MaintainedSchools/index.htm)

employees whom they interviewed thought that financial incentives for them were weak.<sup>54</sup> Performance assessments were considered by many to be soft. The introduction of bonus systems frequently caused antagonism because of the perceived “inequality”. There existed a culture which frowns upon any deviation from a rigid payment system based on grade.

Those incentive and bonus schemes which do exist in the public sector tend to make little difference, because they are either small size or poorly designed. The Home Office, for example, offers top performers up to 2% on top of their salaries. Bonuses in the NHS are capped at 7%.

More importantly there is only a weak link between a bonus and performance. If everyone gets a bonus, it isn't really a bonus. For example, the Government was forced to abandon a performance bonus for teachers in 2003. The scheme was based on teachers themselves applying for the bonus, which was odd enough. But almost every teacher who applied was successful; only 3% of applicants failed to qualify. This did little to improve performance among the majority who got the bonus. Ironically, according to a study by academics at Exeter University, the small minority who were unsuccessful then felt “bitter”, threatened legal action and, in several cases, left their school in disgust. Not a great result.

Other incentive schemes in the British civil service tend to be shared out among teams, which undermines their purpose. In 2004 the Jobcentre set targets for 90 teams involved in finding work-placements for the unemployed. Each team was set five targets, each of which earned members of the team an extra 1% in salary. If all five targets were met this was raised to 7.5%. When the results were analysed it turned out that small teams based in one office increased their performance by up to 10%, but larger teams working in several offices actually suffered a decline in performance – individual members reckoning that their personal contribution would make little difference as to whether they received the award or not.<sup>55</sup>

What efforts there are to monitor performance appear to be weak. In the Department for Communities and Local Government for example, there are around 5,000 staff. Just over half of them are given a performance review each year. But of the 15,682 reviews carried out over the last five years, only 64 people have been rated as unsatisfactory – just 0.4%.<sup>56</sup> Such assessments are inevitably clunky. But do we really think that fewer than 1 in 200 people are underperforming?

54 *Bold Moves: using human capital to strengthen public sector performance*, Deloitte 2008

55 Burgess S et al, *Incentives in the Public Sector: evidence from a government agency*, Working paper 04/103, Centre for Market and Public Organisation

56 [www.theyworkforyou.com/wrans/?id=2010-02-02a.313832.h&s=speaker:10257#g313832.q0](http://www.theyworkforyou.com/wrans/?id=2010-02-02a.313832.h&s=speaker:10257#g313832.q0)

### **Musical chairs in the civil service**

In a problem peculiar to the civil service, high achieving personnel have to move around to get promoted, rather than being promoted in place. Civil servants are treated as place-filling automatons, rather than individuals with particular skills, knowledge and expertise. This reduces the institutional memory of the service.

David Blunkett has argued that:

*"In a logical structure a team that has done well would not be disbanded but given new responsibility . . . People would be promoted in post to do that rather than what is clearly musical chairs in which someone is moved every 18 months or two years to get promoted. That is a crazy system."*

A Public Administration Select Committee report found that "Even though there is an expectation of a four-year norm for SCS [Senior Civil Service] postings, the median length of time spent in a completed post in the Senior Civil Service at April 2006 was only 2.7 years . . . however, we have had evidence that four years itself is often too short a period for individuals to be in one post. The trade union for senior civil servants, the First Division Association, told us they are 'concerned at the current practice of insisting that all SCS staff should move to a new post after four years, almost regardless of the importance of their expertise and knowledge to the organisation, and often heedless of the wishes of the individuals themselves'. We do not know to what extent this is happening, but we do know that it should not be."

## **Public sector underperformance: The obstacles to improvement**

### **i. National pay bargaining**

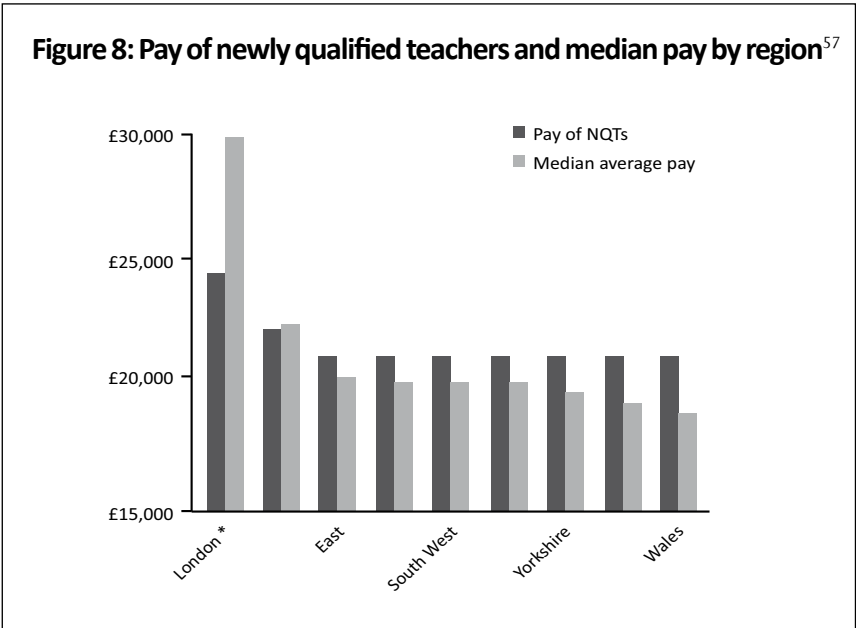
One reason that public sector costs are so high is that there is no properly functioning labour market. In the private sector, salaries – subject to the national minimum wage – are largely determined by supply and demand. If there is a shortage of welders on Teesside, for example, pay goes up. This in turn attracts more people to learn the trade, resulting in a levelling off of wages, and so on: the market ensures that workers and employers are kept in equilibrium. In the public sector, by contrast, wages are still heavily influenced by trade union agreements.

How national pay bargaining works in practice is opaque and involves highly centralised discussions by a small group of leading stakeholders. For example, the School Support Staff Negotiating Body (SSSNB), sets the pay of

around 300,000 workers, such as caretakers and administrative and classroom assistant staff. It is made up of 15 union seats: Unison (8), GMB (4), Unite (3) and 14 employer seats: Local Government Employers (8), the Catholic Education Services (2), the Church of England (2), the Foundation and Aided Schools National Association (2), and an independent chair.

Most pay review bodies are composed of a majority of trade union representatives. This has led to accusations that they are insufficiently impartial and that they have been relatively more generous to union members than to those workers not covered by their deliberations. They have also been criticised for not paying sufficient attention to differing local circumstances.

Quite apart from making it difficult to reward individuals on merit, the national pay-bargaining system creates serious distortions in the economy. Attempting to give people the same pay in different areas when the cost of living varies so much is a recipe for disaster. The system tries to cope with this by introducing fudges such as “London weighting”, but the basic problem remains.



For example, newly qualified teachers are paid a little more to work in the south east and a further amount if they work in London. But this is not enough to stop teachers being relatively underpaid in London and overpaid

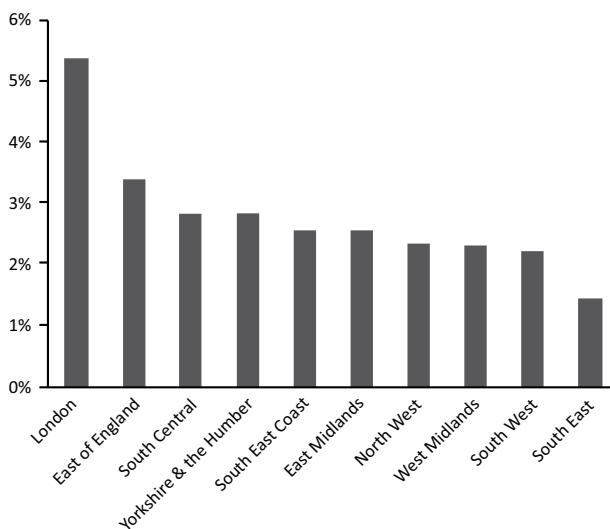
<sup>57</sup> Annual Survey of Hours and Earnings 2009, ONS

in less expensive regions. As a result there tend to be shortages in some parts of the country and surplus numbers in others. The Government then tries to fix this problem with further fudges (like “key worker” housing) rather than addressing the underlying problem.

And this is to say nothing of the problems within these large regions. A new teacher in a central London school enjoys an additional £4,898 – presumably to reflect the added costs of living in a central city location (travel, housing costs, a higher price level for goods and services, etc.). Yet the teacher might work in a cheap part of London; meanwhile a teacher working in a different high cost city such as Leeds, Manchester or Liverpool, will receive nothing. There is absurd unfairness – teachers just outside the zone will not qualify for the bonus while those just within it will cash in – even though there is likely to be little difference in their costs of living.

The effects of national pay bargaining are not just unfair to public sector workers. They can lead to unfair treatment for users of the services too, and to other serious problems. In the areas where nationally set pay does not reflect the high cost of living, there are often staff shortages leading to worse quality of service.

**Figure 9: Vacancy rates for nurses and other staff in the NHS<sup>58</sup>**



58 NHS Information Centre, *Vacancy Survey 2009*

Sometimes these problems can become acute. In 2006, for example, the Royal Cornwall Hospitals Trust was forced to pay an extra £2.5 million to meet nationally-negotiated wage deals – contributing to an £8 million cash shortfall and resulting in wards having to close and operations being cancelled.<sup>59</sup>

Despite all these clear disadvantages, this rigid system covers the great majority of public sector workers. And as a result it has a major impact on our economy. One recent study concluded that it “seems reasonable to assume that, as a lower bound, 80% of public sector employees are involved in national agreements: which means that, for England, at least 20% of jobs in the economy currently fall in this category.”<sup>60</sup>

**Some examples of national pay setting bodies**

<b>Body</b>	<b>Staff covered</b>
Review Body on Doctors’ and Dentists’ Remuneration	146,000
NHS Pay Review Body	1,223,000
Prison Service Pay Review Body	44,000
School Teachers’ Review Body	482,000
School Support Staff Negotiating Body	346,000
Government Departments in compliance with Treasury guidelines	522,000
Senior Salaries Review Body	8,000
Police Negotiating Board	286,000
National Joint Council for Local Authority Fire and Rescue Services	52,000
Advisory, Conciliation and Arbitration Service (advisory role)	2,913,000

During Tony Blair’s time as Prime Minister, some attempts were made to roll back the system at the margins, with academy schools and foundation hospitals. But under pressure from trade union leaders, some of these initiatives ran into the sand. National pay bargaining is likely to prove hard to reform. The first step might be to allow more and more institutions to derogate from the standard national rate. In the end, national rates of pay make no economic sense and should disappear.

59 *Sunday Telegraph*, 12th March 2006

60 Wolf, A, *More than we bargained for: the social and economic costs of national wage bargaining*, CentreForum January 2010

We already have a successful example. Sweden ended its system of national pay bargaining in the early 1990s, and moved to a system of individual contracts.

Peter Steiner, of ST – the big Swedish union representing white-collar (non-professional) civil servants – explains that, when the reforms were first introduced, the central offices were cautious. But local branches embraced them immediately. “We said we’d go slowly but within a year the whole central structure went – the locals, given the chance to negotiate, grabbed it, and there’s no way we could go back.” Of course, he agrees, under the old central system, local employers and union sections didn’t know how to negotiate. “But now they do.” People at the centre “can’t know what is the right wage, what someone is actually doing”.<sup>61</sup>

In Sweden, some conditions like holiday entitlements and grievance procedures are still nationally agreed. Some national agreements still set guidelines for the total amount by which total wage bills will increase. But any increase individuals receive is on their personally agreed salary, not an addition to their “point” on a national scale.<sup>62</sup>

## ii. The high cost of hiring and firing

The influence of trade unions and the tendency towards litigation make sacking workers, especially senior staff, slow, difficult and expensive in many areas of the public sector. For example, it can take up to two years to dismiss teachers who are failing in their job or facing disciplinary action. Often they are given non-contractual pay-offs by means of compromise agreements, on condition they quit their job.

Over-generous redundancy payments are one problem. In the civil service, £432 million was spent on payouts to 7,718 officials between 2005 and 2008 – an average of £56,000 a piece.<sup>63</sup> This is quite apart from any pension pot they will take with them. In services such as the police and prisons, there are extremely generous incentives to take early retirement.

Moreover, there often seems to be little rationale in determining the size of the payments. For example, in the civil service there are large variations even between different government departments. During the period of the Gershon Review from 2004 to 2007 the cost of sacking someone varied between over £160,000 at the Foreign Office to £34,000 at the Department for Work and Pensions.

61 Ibid

62 Ibid

63 [www.civilservicenetwork.com/people/profile-article/newsarticle/civil-service-redundancy-bill-revealed/?no\\_cache=1](http://www.civilservicenetwork.com/people/profile-article/newsarticle/civil-service-redundancy-bill-revealed/?no_cache=1)

### Redundancies by department: 2004–07

**Foreign Office:** 277 staff took early retirement at an average cost of £162,368

**Treasury:** 28 redundancies were made at an average cost of £153,250

**Department of Health:** Reduction in 340 staff costs an average of £119,950 each

**Ministry of Justice:** 124 redundancies at an average cost of £93,767

**Communities and Local Government:** 470 staff at an average cost of £80,553

**Food and Rural Affairs:** 786 redundancies at an average cost of £75,959

**International Development:** 143 redundancies at an average cost of £64,048

**Business:** 743 staff at an average cost of £48,156.

**Work and Pensions:** 4,812 staff at a cost of £34,152 each.

Reform is proving a slow process. For example, if made redundant, civil servants over 50 qualify for compensation of three years' pay, while those who joined before 1987 can qualify for 6.5 years' pay. In 2009 the Government proposed reducing these payoffs a little, by capping compensation at two or three years' pay for lower paid staff and introducing repayment of the severance pay if the employee rejoins the civil service (which is not necessary at present). This is a step in the right direction, but there is further to go.

Outside the civil service the majority of public sector organisations have similar problems. According to one survey, the average cost of redundancy is £17,900 in the public sector and £8,900 in the private sector.<sup>64</sup>

If sacking an underperforming member of staff is costly, risky and time consuming, it is no wonder that many public sector managers don't think it is worth their while. In the short term sacking people causes difficulties and increases costs. And in the long term the Treasury will probably take any savings that are made. But even if it doesn't, the manager responsible is likely to have moved on. If you are only going to manage a public sector department or a team for a few years, and it will take several years for redundancies to pay for themselves, then you have little incentive to rock the boat.

All this means public sector managers have every incentive to allow slackly performing staff to drift on.

The process of hiring people in the public sector can be extremely formalistic and consume huge amounts of time and money. Here for example is the 39-step process which must be followed when hiring someone to the Prison Service:

## **Why is it so hard to hire someone in the public sector – an example from the Prison Service**

### **Convening the selection panel**

1. The trade unions have been consulted over changes to staff numbers or the grading of posts
2. The Governing Governor/Head of Group has devolved authority to fill the post
3. The special arrangements applying to the filling of Prison Officer, certain Psychologist, Industrial/Agricultural, and AO posts have been considered. Consideration has been given to the transfer of any surplus staff for whom a managed appointment (including compassionate) has been identified
4. An appropriate file has been opened for retention of papers related to filling of the post(s)
5. Efforts have been made to ensure that panel membership reflects the Prison Service principles on diversity
6. The selection panel comprises at least 2 members one of whom is at least 1 grade or payband higher and other members at least equal to the vacant post
7. Panel members are competent to carry out their roles through having been trained, previous experience or being briefed and supported through the process
8. Advertising
9. The post has been advertised within the Prison Service and to those who may be eligible across the Ministry of Justice
10. Eligibility requirements have been advertised and competence criteria made available to applicants
11. The standard advertising template has been used
12. The advertisement stated which application form is to be used
13. Any restriction on further transfer for successful applicant has been stated in the advertisement
14. Need for JSAC accreditation is stated where applicable
15. Where option to request annual staff reports is used this is stated in the advertisement

### **Sifting**

16. Applicants have provided any supplementary information required in the advertisement
17. The ethnicity monitoring form was detached prior to the sift and retained for monitoring purposes
18. Only those applicants meeting the advertised eligibility criteria were considered for interview
19. Any GIS (Guaranteed Interview Scheme) applicants meeting minimum eligibility criteria were invited for interview
20. Applicants have provided the confirmation of non-membership of racist groups if applicable

- 21.** The model sift evaluation form or a locally devised version was used to assess and score applicants in merit order
- 22.** Any consideration on sick absence information took place after the assessment of competence
- 23.** Any decision to reject an applicant on sick absence information was approved by the Governing Governor or Head of Group
- 24.** Applicants not invited for interview were informed of their right to make representations within 7 working days
- 25.** Any representations were considered by at least the original chairperson and an additional member of at least the same grade or payband as the vacant post
- 26.** A record of the original and representations sift was provided by the chairperson and is retained on the file

### Selection

- 27.** The model interview assessment form or a locally devised version was used to assess and score candidates and place in merit order
- 28.** An agreed panel assessment was produced for each candidate
- 29.** Any known disciplinary/criminal procedures in regard to a candidate have been taken account of in reaching a decision on suitability
- 30.** Any panel recommendation to give a not suitable marking to a candidate due to sick absence history has been approved by the Governing Governor/ Head of Group
- 31.** A panel report as per the standard report has been completed and certified by the chairperson

### Results and posting

- 32.** The standard VAS monitoring form has been completed
- 33.** Successful candidates have been given a common seniority date which is the date on which the report was signed off and certified
- 34.** Successful candidates from outside the Prison Service have provided a declaration in regard to freemason membership
- 35.** Successful candidates have been informed and notified of any change to terms and conditions of service on taking up post
- 36.** Unsuccessful candidates have been notified and provided with feedback if requested
- 37.** Security clearance has been sought and received as required
- 38.** Release dates have been agreed within the limits applicable
- 39.** Where a reserve candidate is used, this is for a vacancy with similar competence requirements, is in merit order and within the 12 months of the date the original report was certified

If this is the procedure for hiring someone, imagine how much more tortured the process for firing someone is.

With methods like these, it is no surprise that hiring and firing costs a lot of money and takes a lot of time. The National Audit Office found that it cost an average of £2,000 to hire someone, and that “It can typically take an average of 16 weeks (112 days) to recruit a new member of staff.” At HMRC it typically took 212 days.

During this extraordinarily drawn-out procedure, the job has to be filled by expensive temps. All this is particularly depressing when you consider that in the organisations the NAO looked at, “between 14 and 52% of staff leave within 12 months of being appointed”.<sup>65</sup> And so back to square one.

The report also found that public sector bodies were demanding academic qualifications for positions that did not require them. It suggested that departments “could improve the relevance of the recruitment process to the vacancy by testing candidates in the workplace using realistic work scenarios. There is also the potential to remove the need to hold academic qualifications for specific positions such as contact centre staff.”

Apart from wasting a great deal of time, this process also crushes innovation and strips out any personal factors. But ultimately, it is based on a worst-case view about those doing the recruitment – the view that they are incompetent or malign. So much prescriptive bureaucracy sucks the life and soul out of staff and crushes any sense of freedom or discretion.

In 2008 the Government struck an agreement with the Council of Civil Service Unions about what it euphemistically refers to as “handling surplus staff situations”. The agreement contains about a hundred bullet points, but the general drift is clear – to protect insiders at the expense of outsiders:

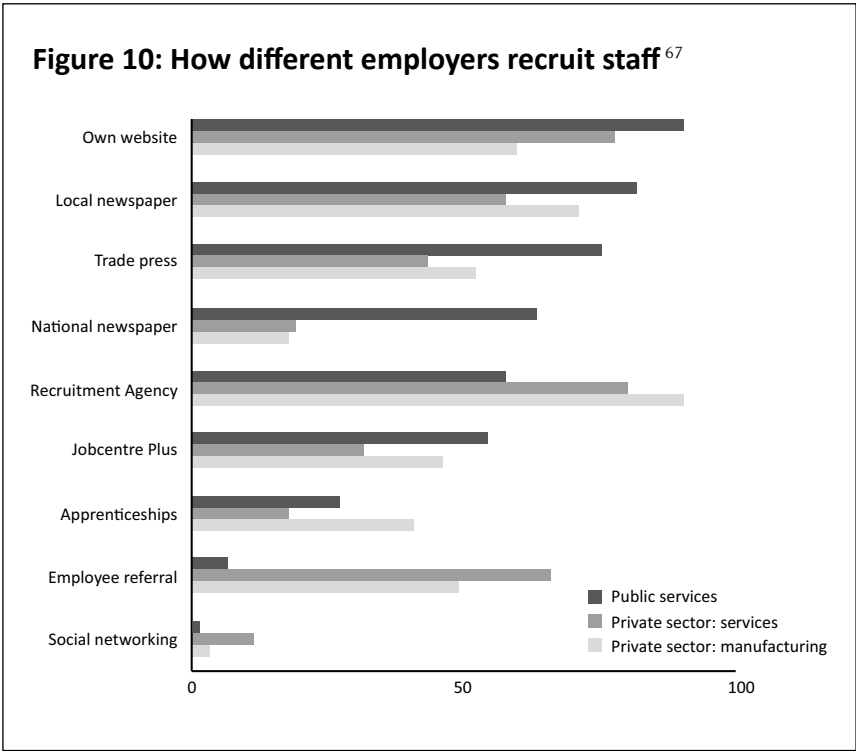
*“Positions filled by agency workers, consultants, temporary staff and similar appointments should be reviewed to establish if these would be suitable for permanent members of staff whose jobs are at risk” . . . There will be “a formal Meaningful Consultation period (90 days)” . . . and civil service employers must “Ensure proposals are subject to Equality Impact Assessments and that monitoring is ongoing” . . . “A Period of Reflection meeting will then be arranged between senior members of the Department, the Cabinet Office, the National TU Side and the Departmental TU Side. This must be in the diary at least six weeks before any planned redundancy notices are issued.”*

65 Recruiting civil servants efficiently, NAO: [www.nao.org.uk/publications/0809/recruiting\\_civil\\_servants\\_effi.aspx](http://www.nao.org.uk/publications/0809/recruiting_civil_servants_effi.aspx)

None of this will stop people being fired if the Government has decided to fire them. But it will raise the costs of the process, drag out the time it consumes and discriminate in favour of long service and therefore against those who are currently on the outside. More importantly these formal processes aim to prevent poor performers from being weeded out.

It's interesting to see how different employers recruit new staff. Public sector bodies tend to rely more on their own websites. In the case of the civil service many vacancies are not even advertised except on websites that can't be seen except by people who are already on the civil service network. Roughly half of new jobs are only advertised to people who are already inside the system.<sup>66</sup>

Public bodies are also three times more likely to pay for expensive national newspaper ads – because policies designed to ensure “fairness” mandate this. How many low paid workers regularly read *The Guardian*, where many of these adverts are placed? In contrast, private sector employers are more likely to use recruitment consultants, employee referral schemes or even social networking sites.



66 Written Answer by Angela Smith, 1st September 2009: Hansard Column 1788W

67 Based on CIPD, 2009 survey of recruitment, retention and turnover

As noted above, making it so hard to hire and fire reduces work incentives and leaves public services with a sluggish, low-morale culture. Public sector bodies need to dismantle prescriptive hiring and firing policies, and to create the right incentives for managers so that they are not encouraged to leave poor performers in place.

### iii. Public services are loaded down with secondary objectives

Politicians encumber the public sector with all kinds of costs – with little thought. They choose to use public service employment to achieve social objectives other than those for which it was intended. Cabinet office documents are stuffed with references to making public service employment conditions the best available. They should remember that public services exist to serve the public.

For example, there has been an Equal Pay Act in force since 1975, before which companies were free to draw up contracts openly stipulating higher rates of pay for men than women. Tony Blair's Government, however, went much further. It obliged public sector bodies (though not private companies) to conduct equal pay audits. These audits do not just have to compare the wages of male and female employees doing the same work: they must attempt to compare earnings across different groups whose work is deemed to be "equivalent": the pay of male-dominated refuse-collectors, for example, is compared with female-dominated office-cleaners.

The audits soon proved a bureaucratic nightmare and attracted interest from lawyers working on no-win, no-fee agreements, which launched an avalanche of hugely expensive claims on behalf of female public sector employees. Between 2005 and 2006 the number of equal pay claims brought to tribunals doubled to 44,000 and even Jenny Watson, chairwoman of the Equal Opportunities Commission called for a moratorium.<sup>68</sup>

That the audits would impose a huge cost on councils seemed not to occur to the Government. This cost has come not just in direct bureaucracy and compensation. The audits have also had an overall inflationary effect on public sector pay. Logically, the attempt to equalise pay between male and female-dominated occupations should have had a neutral effect on wages – with some earnings being raised and others being lowered. In practice, however, employers found it easier to raise wages than to cut them, so the exercise has resulted in an upwards ratchet on the total public sector pay bill. The Government even made £400 million available to compensate men for being moved to a lower pay scale – thereby undermining the entire exercise.

68 BBC website, 21st September 2007

By 2006, it was already clear that the bill would run into billions: the Government granted local councils permission to raise £1.6 billion to meet the bill. In 2008, Local Government Employers, which represents councils on issues of pay, estimated that implementation of pay audits would cost them £2.8 billion. As a result, services have been cut and assets sold: in 2009, 37 councils had to sell or borrow against a further £501 million of assets.<sup>69</sup> Hospitals are among the worst affected: in Scotland alone, by 2009 there were 12,600 outstanding claims lodged with health boards.<sup>70</sup>

It is not just the cost that is alarming: it is the lack of economic reality. The concept of two types of work being “of equal value” is meaningless outside the context of the market. It could be argued that football players and hockey players both perform similar tasks in that they both try to entertain the public by thumping a ball into the back of a net; but their respective jobs are valued very differently by the spectators who pay their wages.

Moreover, equal pay audits undermine incentive schemes. They work on the principle that two people doing the same job deserve the same money regardless of how well they are doing it. The result of this approach is the nonsense of guaranteed bonuses, payable however well or badly workers perform.

It is not even clear that the problem which equal pay audits were instigated to solve ever existed. Exaggerated claims, such as that made by Harriet Harman that women are only paid “two-thirds” of what men earn, do not seem to have any foundation in fact.<sup>71</sup> The Office of National Statistics estimated in 2008 that men in full-time work earn 17.1% more than women in full-time work,<sup>72</sup> but this is not based on any evaluation of work: it is a straightforward median, disregarding the fact that many women take career breaks to raise children and do not return to their former work.

The public sector is laden down with all kinds of other secondary objectives. As part of the Government’s attempts to promote “work/life balance” the civil service offers flexible working more or less across the board.<sup>73</sup> Several departments employ trade union officials at public expense. Every department has a “diversity champion”.<sup>74</sup>

69 LGA website, 1st October 2009

70 *The Scotsman*, 7th October 2009

71 GMTV interview, 15th June 2007

72 *Annual Survey of Hours and Earnings 2008*, ONS

73 [www.civilservice.gov.uk/about/resources/diversity/work-life.aspx](http://www.civilservice.gov.uk/about/resources/diversity/work-life.aspx)

74 [www.civilservice.gov.uk/iam/diversity/resources/index.asp](http://www.civilservice.gov.uk/iam/diversity/resources/index.asp)

The overall impression is of a sector which spends a huge amount of time and money trying to meet secondary objectives, rather than its core purpose of delivering good public services and value for money.

There are all kinds of different groups in society who are poorer or worse off than the average. But the answer to this problem is to attack the root causes, rather than using public sector employment as a way of addressing the symptoms.

It often seems unclear to public sector managers what secondary targets they are trying to hit. For example, the head of human resources at the Home Office, Kevin White, told *Public Servant* magazine that “with nearly a quarter of our staff coming from ethnic minority backgrounds we are one of the most diverse departments in Whitehall . . . our strategy has seen the diversity of the Home Office increase from 12% in 1999 to 25% in 2009.”

But what exactly is the “right” level for the number of people from different ethnic groups? And in which departments? Why should 42% of staff at the Revenue & Customs Prosecution Office be drawn from ethnic minorities but only 0.7% at the Royal Mint? Is the goal to reflect the national average, and so aim for 8% of people in each department? Or to try to “compensate” for higher unemployment in certain groups? Whatever it is, it’s not working, with some ethnic minority groups over-represented in the public sector and some under-represented: employees of Caribbean ancestry being 40% more likely than average to be employed in the public sector, while staff of Pakistani origin are 40% less likely, despite high unemployment rates.<sup>75</sup>

Rather than obsessing about meeting arbitrary targets or positive discrimination quotas, the public sector should simply ensure that it doesn’t discriminate. It must focus on its primary mission – to deliver public services.

#### iv. Poor industrial relations

As noted above, public sector workers are nearly 15 times more likely to strike, despite faster-rising pay than in the private sector. One reason for such poor industrial relations is the strength of trade unions. While union membership and working practices in the private sector have been transformed in recent decades, industrial relations in the public sector are little changed since the 1970s.

By 2008, collective bargaining coverage had fallen to 20% for the private sector, but was still 72% in the public sector.<sup>76</sup>

The civil service actually spends about £22 million a year on paid union representation – people who are paid to work full-time as trade union reps.

<sup>75</sup> Labour Force Survey, ONS

<sup>76</sup> [www.eurofound.europa.eu/eiro/country/united.kingdom\\_4.htm](http://www.eurofound.europa.eu/eiro/country/united.kingdom_4.htm), BERR, 2008

According to freedom of information requests by the Civil Service Network, there are an estimated 750 full-time equivalent trade union posts paid for by the taxpayer.<sup>77</sup> The same goes for much of the rest of the public sector.

Strike action is banned in some parts of the public sector – for example the armed forces and police. But in similarly vital areas such as the prison and fire services, strike action is allowed. If the rationale for the ban on striking in the police is to protect life and limb, why should nurses or other life-saving personnel be allowed to strike?

The economist Tim Leunig has argued that ballots on strike actions should be conducted on the basis of the individual employer, rather than a national basis:

*“The Employment Act 1982 states that strikes must be about a dispute between ‘workers and their employer’. Since British Rail was broken up, a dispute between workers and their employer can only lead to a strike of those who work for a particular train operating company. One side effect of rail privatisation is that it is now much harder to call a national strike. In contrast, strike ballots for public sector workers are usually national, even though very few staff are employed by national organisations. The legal employer of most hospital doctors and nurses is the hospital itself, while GPs are employed by the local primary care trust. Teachers are employed by the local authority, and academy staff by the school itself. University faculty are employed by their university, civil servants by their department, and so on.*

*In effect, we still have sector-wide strike ballots in the public sector, not employer-wide strike ballots as in the private sector, and as the law clearly intends.”*<sup>78</sup>

At present things are made worse by the “Code of Practice on workforce matters in public sector service contracts”.<sup>79</sup> The Code, introduced in March 2005, requires that where a private service provider recruits new staff to work on a public sector contract alongside staff transferred from a public authority, the service provider will offer employment on fair and reasonable terms and conditions which are, overall, no different to those of transferred employees.

In other words the private sector is not allowed to compete “unfairly” with the public sector by offering its employees less generous terms for the same work. This is an attempt to export the rules which tie down the public sector to the private sector, thus buttressing the monopoly power of the public sector unions.

77 [www.civilservicenetwork.com/features/features-article/newsarticle/taking-the-rep/](http://www.civilservicenetwork.com/features/features-article/newsarticle/taking-the-rep/)

78 *Financial Times*, 27th October 2009

79 [www.cabinetoffice.gov.uk/workforcematters/code.aspx](http://www.cabinetoffice.gov.uk/workforcematters/code.aspx)

#### v. Public sector pensions – trapping people in

In the 2009 Pre-Budget Report, Chancellor Alistair Darling stated that “Public pensions need to be broadly in line with those offered in the private sector.” Implementing this aspiration would require a big adjustment. Indeed, the perception that wages are lower in the public sector ties in with the expectation for higher pensions: “In a way there is a deal that is done with the public sector that people accept lower pay than they would get elsewhere in return for having a more generous pension arrangement.”<sup>80</sup> Of course, as we have seen above, workers in the public sector are not paid less than in the private sector.

According to research by the Pensions Policy Institute, the average public sector pension is worth three times as much as the typical scheme still open to workers in the private sector.<sup>81</sup> And only 4.6% of private sector employees are in defined benefit schemes that are open, compared to 82% of public sector workers.<sup>82</sup>

On top of this, private sector pensions are generally subject to the uncertainties of macroeconomic risk – the general level of asset prices, for example – while public sector pensions are implicitly or explicitly guaranteed by the state. Since many pension funds have seen the gains of the last decade wiped out by the current recession, the gap has become even more stark. In consequence of these factors, the Institute for Fiscal Studies has estimated that public sector salaries are effectively worth 12% more than the same nominal amount in the private sector.

The CBI says that businesses are often prevented from bidding for public service contracts by their inability to pay a premium – of between 25% and 50% – to match the pension entitlements of formerly public sector staff.

How can the Government afford such fantastic pensions? The answer is that it can't. In fact the Government is running up huge hidden debts to pay for these pensions. Many public sector organisations are not obliged to make a contribution to secure their liabilities. The Pensions Regulator has no right to order public sector organisations to top up their contributions – as they do with the private sector. So vast hidden debts are being run up with the implicit assumption that any shortfall will be paid for out of future taxation. Of the six largest public sector pension schemes, only one (the Local Government Pension Scheme) is funded (though centrally guaranteed); the other five (those for the NHS, teachers, the civil service, the police and the armed forces) are not.

80 Evans, D Head of Pay and Labour Market Services, Capita Survey and Research Unit, Minutes of Evidence to the Public Administration Committee, 21st May 2009, Q. 173: [www.publications.parliament.uk/pa/cm200910/cmselect/cmpubadm/172/9052105.htm](http://www.publications.parliament.uk/pa/cm200910/cmselect/cmpubadm/172/9052105.htm).

81 *The Guardian*, 16th October 2008: [www.guardian.co.uk/money/2008/oct/16/occupational-pensions-pensions](http://www.guardian.co.uk/money/2008/oct/16/occupational-pensions-pensions)

82 Occupational Pension Schemes Annual Report 2008, ONS

Public sector workers are led to believe that they are paying for this, but they are not. For example, at the moment the Government asks NHS employees and teachers for a contribution of, on average, 6% of pay and employers for an additional 14%, in order to help meet the pension promises it has made, i.e. 20% of total employee pay. But over 40 years a typical public sector worker needs to have paid 48% of his salary into his scheme in every year of his career in order to pay for the pension payouts at the end of it. The Treasury currently covers this annual 28% gap.

The cost of meeting this unfunded public pension liability is already placing a hefty burden on the taxpayer. The accumulated liability of unfunded public sector schemes is now £1.1 trillion – equivalent to 78% of GDP. This is like a second national debt. The annual cost of servicing the debt of these final salary schemes already stands at £45.2 billion,<sup>83</sup> and is rising rapidly as pensioners live longer.

So public sector pensions need urgent reform on cost grounds alone. But there is another aspect to over-generous pensions: it is trapping public sector workers in jobs and disincentivising them from seeking work in the private sector. A public sector worker aged 50 might be able to increase his or her salary by moving to a private sector job, but would compromise the value of his pension. So they have an incentive to stay on and become an under-performing time-server. The flip side of this is that it becomes more difficult for the private sector to compete with the public sector – further reducing competition and innovation in the public sector.

There is a strong case for honouring existing obligations but at least for new entrants significant reforms to public sector pensions should be considered. The first step must be to reveal the size of the problem, and prevent the Government from running up further off-the-books debt. Public sector employers must make pension provision for their current staff each year, equivalent to the full market value of the pension benefits they have given out to retired staff in the same period.

#### **vi. Top heavy bureaucracy reduces freedom and progress**

The National Audit Office commissioned a poll of 300 former civil servants, asking why they had opted to leave their jobs. “Bureaucracy and paperwork” – was cited by four out of five as the main reason for leaving. Pay was ranked only eighth out of 11 reasons for leaving the service.<sup>84</sup>

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83 Record, *N Public Sector Pensions: the UK's second national debt*, Policy Exchange, 2009

84 *A Recruitment and Retention*, Audit Commission 2002

Why is there so much bureaucracy? One answer has to do with the number of bureaucrats. A Whitehall reformer argues that “the cost of having so many people at higher grades isn’t really in their pay. It’s the fact that they generate work for everyone else.”

And management in the public sector seems to have expanded. In staffing terms, much of the additional expenditure over the last decade has found its way to funding intermediate, administrative and managerial roles rather than increases in frontline staff. The number of managers and senior managers in the NHS, for example, increased by 76% between 1998 and 2008, compared with a 46% rise in total doctors and just 26% in total qualified nursing staff.<sup>85</sup> Administrative staff numbers in English state schools have increased by 82% between 1997 and 2009 compared to just 10% in teacher numbers.<sup>86</sup> In the five years to 2009 the number of academics at UK universities rose by 10%, while the number of managers increased by 33%.<sup>87</sup> This trend is largely replicated across the public sector and it seems highly likely there’s a link between this and falling productivity.<sup>88</sup>

One possible path to follow may be that of Ofcom, which was created by the amalgamation of five previous regulators in 2002.

All functions in each of the legacy organisations went through a process of review, to assess its role and utility. This led to an open process for the selection of the new staff; in essence, everyone had to apply for their own jobs.

- Initially, there was equivalence with the civil service salary that the person had previously enjoyed, but subsequently adjustments were made according to the principle of ending generalised pay increases. A process of performance assessment replaced it. Underachievers and ‘coasters’ received no increase, those who excelled received a lot.
- Ofcom do benchmarking of salaries with private sector equivalents in the telecoms industry (albeit towards the bottom end of the scale for an equivalent job).
- Ofcom staff pensions are distributed through an allowance, determined as a percentage of base salary, which can be taken as extra salary or invested in a pensions scheme of the employee’s choice.
- Job security has been greatly reduced, with a performance management process every year.

85 NHS HCHS and General Practice Workforce (England) – master table 1998–2008, NHS Information Centre 2009

86 School Workforce in England, DCSF June 2009: [www.dcsf.gov.uk/rsgateway/DB/SFR/s000874/index.shtml](http://www.dcsf.gov.uk/rsgateway/DB/SFR/s000874/index.shtml)

87 *Financial Times*, 23 February 2010

88 *The Efficiency Programme: A Second Review of Progress*, NAO February 2007

### **Action points**

- National pay bargaining should be phased out, and automatic promotion up national salary scales. Pay and promotion should be tied to performance and should be at the discretion of local managers.
- The cost of hiring and firing public sector workers should be reduced; and complex HR processes, which cost huge amounts of time and money, should be abolished. Creating a more flexible labour market in the public sector will allow managers to drive up performance.
- Stop loading secondary objectives onto the public sector, and strip back practices like equal pay audits which are arbitrary and have cost public services billions.
- Improve industrial relations in the public services by reviewing how strike action is triggered. Examine which life-saving public services are and are not allowed to strike. Abolish the Code of Practice on workforce matters in public sector service contracts.
- Public sector pensions should be reformed so that they do not create perverse incentives to remain in the public sector. As a first step, the Government should be prohibited from running up vast unfunded pension liabilities.
- Review the growth of top and middle management positions in the public sector.

## 6

## A Better Way to Fight Crime

“Tough on crime, tough on the causes of crime,” remains one of Tony Blair’s best-known sayings. It was a cleverly worded phrase. Before 1997 there was a widespread perception that while the Conservatives were in favour of hanging, flogging and locking criminals away, the Labour party was largely made up of high-minded social liberals who would always seek to blame crime not on criminals but on society at large. Here, Mr Blair was saying, is a new approach: we won’t shy away from imprisoning criminals, but neither will we forget that the root causes of much criminality lie much earlier in life – in poverty, child abuse, drug addiction and all the rest. Tackle these and there will be many fewer people in need of being locked up.

In some ways the Government has indeed shown “toughness”. There are more police. The prison population, which began to rise sharply while Michael Howard was Home Secretary in the mid 1990s, has continued to escalate, reaching 84,000 by 2009. The Government has also introduced novel instruments such as Anti-social Behaviour Orders (ASBOs) to tackle low level crime.

According to the Government, the result has been less crime. But this is not how the public see it. Polls show that public confidence in politicians’ ability to control crime fell from 86% in 1997 to 58% in 2007. Why?

First the rate of recorded crime clearly remains very high from a historical perspective – about ten times higher than in the 1950s. Secondly, while burglary and car crimes have decreased in recent years, violent crime is up. What progress has been made in recent years may owe as much to the long economic boom as the efforts of the criminal justice system. Even the Prime Minister’s Strategy Unit admitted, in a document leaked in 2006, that 80% of the fall in crime since 1997 could be attributed to economic factors.<sup>89</sup>

89 *Sunday Times*, 24th December 2006

It isn't for lack of spending that Britain suffers from high crime. Britain spends more of its national income on its criminal justice system than any other industrialised country.<sup>90</sup> But despite the big expenditure, every part of the criminal justice system is underperforming.

Tony Blair promised there would be "more police". But though there are more police officers, there is little or no extra policing. This is because police time is wasted by excessive paperwork, bureaucracy, short working hours, poor technology and the inefficient deployment of officers.

Other parts of the criminal justice system are also failing. Prison is failing to rehabilitate offenders or even to act as a deterrent: 65% of those released from prison have been reconvicted within two years. The real rate of reoffending, which goes unrecorded, is far higher.<sup>91</sup>

Despite rhetoric about marching hoodies to the cash point, attempts to tackle anti-social behaviour have been unimpressive. One in seven people wearing an electronic tag will reoffend while wearing it. ASBOs have been over-used and driven by government targets. The claim that 65% of anti-social behaviour interventions do not result in reoffending is spurious. It is based on a National Audit Office report which simply measured whether offenders had received a second intervention – not whether they had committed any further offences. The reality is that too often ASBOs have become a badge of honour, and 60% are breached. Nearly half of the new penalty fines go unpaid, making the law look ridiculous in the eyes of offenders. And even criminals who have been electronically tagged go on to commit more crimes – with one in twenty actually caught offending while tagged.<sup>92</sup>

Little effort has gone into crime prevention. For every £80 spent on treating crime, only £1 is spent on anything related to prevention, and much of that is wasted on programmes that don't work. Cutting back on crime prevention is a false economy, as the cost of crime in the UK is huge. In 2000 the Government estimated it to be at least £60 billion a year – over £164 million every day.<sup>93</sup>

## Is crime rising or falling?

There was probably never a time when the public did not complain that crime was rising and public morality was collapsing. This was certainly the case in the 1950s, now fondly remembered by some as a golden age of calm and lawfulness.

90 *Crime, Justice and Cohesion*, PMSU Policy Review, November 2006

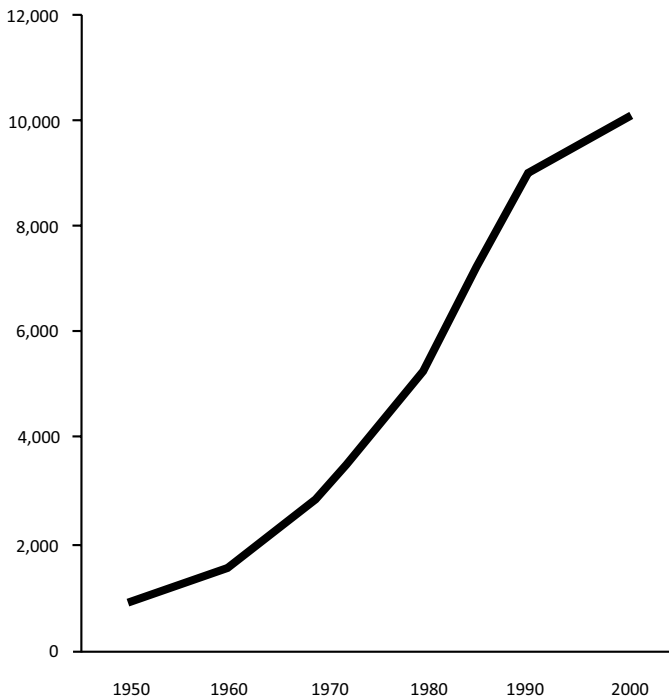
91 *Re-Offending by Adults: Results from the 2004 cohort*, Home Office, 2007/8 Performance

92 *Lords Hansard*, 5th Oct 2009: Column WS212

93 *The Economic and Social Costs of Crime*, Home Office Research Study 217, 2000

However, recorded crime statistics certainly suggest that crime has been on the increase over the long term. The average number of reported crimes per 100,000 people in 1950 was 1,053. In 1960 it was 1,610. In 1970 it was 3,166. In 1980 it was 5,459. By 1990 it was 8,986, and by 2000 it was 10,111.

**Figure 11: Reported crimes per 100,000 people<sup>94</sup>**



What is new is the vast gulf between the public perception of crime and the story that is told by the Government – of falling crime, resulting from tougher law and better policing.

“I would like to congratulate the police on today’s crime figures,” announced Tony Blair in 2007 – just as a spate of youth-on-youth shootings was taking place in South London. This underlines a truism about crime figures: however good or bad they may be there is something in them for

94 ‘Crime in England and Wales, 2006/07’, Home Office Statistical Bulletin, London: Home Office

everyone. Violence which causes injury and sex offences had indeed fallen when Blair made his bullish statement – yet armed robbery and drugs crimes were up.

Measuring crime accurately isn't easy. A rise in recorded crime could be caused, for example, by more effective policing. If a police force searches 1,000 youths on the street and discovers that 100 are carrying a knife, it will have created 100 recorded crimes – of carrying an offensive weapon – which otherwise would have gone unnoticed. Yet few would argue that this was a worthless exercise, even if it only prevented a single violent attack. On the other hand if people lose faith in the police and stop bothering to report crimes to the authorities, then the real number of offences would be under-reported.

Because it does not suffer from these kinds of problems, the British Crime Survey (BCS) – a large opinion poll of adults' experience of crime which started in 1982 – is the Government's preferred measure of crime. It reveals that far more crimes are committed than are recorded, let alone result in a conviction: roughly speaking for every 100 crimes picked up by the BCS only 40 are even reported to the police. Only 2% of crime eventually results in a conviction.

The BCS paints a clear picture of the rise and fall of crime over the past 30 years: it rose steadily from the early 1980s until 1995, then began to fall. The fall was sharp until around 2002, since when the rate of fall has levelled off. By 2007–08 overall crime had returned to early 1980s levels. There was a 5% rise in crime between 2007–08 and 2008–09 which had been expected due to the recession, though the Home Office declared the rise to be statistically insignificant. The overall picture of falling crime, according to the BCS, applies to property crime as well as violent crime. Domestic burglaries, for example, are at less than half the level they were in the mid 1990s.<sup>95</sup>

The BCS has long been weakened by its failure to include the experiences of the under 16s – although this is set to change. It is also hampered by the fact that it relies on sampling – it is currently based on interviews with 51,000 people. While this may be adequate to analyse the prevalence of common crimes such as car theft and vandalism, it is less good at analysing the rarer, more violent crimes. A survey compiled from interviews with one in 1,000 of the population is of little use, for example, when trying to calculate trends about serious injuries caused by firearms, which afflict fewer than one in 100,000 of the population in any one year. It is not clear why the Home Office runs the BCS. It would inspire more confidence if it were run by the Office of National Statistics.

While the BCS is of little use when it comes to detecting more serious, rarer crimes, it is these violent crimes which have been increasing and which intensify many people's fear of crime. Recorded incidents of violence against the person, which in 1950 stood at just 6,000 and in 1995 at 213,000 had by 2005–06 reached 1.06 million, before falling slightly back to 904,000.

## More police but less policing

The bill for fighting crime and punishing offenders has risen in real terms by a third since 1997 to £23 billion a year.<sup>96</sup> Nearly two thirds of the extra money has been spent on the police. The number of officers, which had been falling during the 1990s, has been sharply increased – from 125,000 in 2000 to 144,000 in 2009. The number of civilian staff employed by the police has increased from 53,000 to 86,000.

Yet the police service remains much less efficient than it ought to be. It is divided into 39 constabularies in England, four in Wales and eight in Scotland and ought to be a good model for local democracy. But there is too little sharing of technology, equipment and information. For example, there is still no national police IT system, which hampers the investigation of crimes across counties, and it is wasteful for each constabulary to acquire its own vehicles, its own helicopters and its own IT systems. There have been some schemes for co-operation: as part of operation Apex, a campaign by Essex police to save £25 million a year, an IT contract was shared with Kent police, saving £400,000 a year. But there is also huge scope for savings in the field of police cars. There should be a single fleet of standardised models, maintained under central contracts. Not even police uniforms are standardised at present: each constabulary has its own shade of blue and the costs of a shirt vary hugely. While we don't want to nationalise or centrally plan all these activities, in many areas the centre should be helping the forces to co-ordinate. If a central agency can offer the police forces cheaper equipment and the opportunity to share intelligence, police forces are more likely to do so.

Too much of the valuable time of trained officers is spent undertaking tasks which could be carried out by cheaper, civilian staff. They are spending time washing cars and looking after buildings. The former job could be carried out by civilian staff and the latter handed to a facilities management operation. Trained staff, concluded Sir Ronnie Flanagan in his review of polic-

96 Chambers, M, Ullmann, B and Walker, I, *Less Crime, Lower Costs*, Policy Exchange 2009

ing, could do the job of taking statements better and more accurately than could officers.<sup>97</sup>

Police careers are too short. With a pension scheme which matures in as little as 30 years, the police service is retiring staff in their late 40s – still in their prime. Early retirement is a hangover from the days when little was understood about the health risks of shift-working and when ill health was commonplace. Shift-working is better managed nowadays and there is no need to retire policemen so early. At the same time a risk-averse culture adds to the inefficiency. There is little sense in a nationwide ban on policemen patrolling alone – this might make sense in trouble spots but in a small town or suburb with little violent crime it is a waste of police time.

## Police work not paperwork

There is no point in having additional police officers if they are not actually fighting crime. The purpose of the extra civilian staff was to free police officers for “frontline duties” – but this concept no longer means a great deal now that the government includes “incident-related paperwork” in its definition of a frontline duty. Figures obtained by the House of Commons Home Affairs Committee reveal that despite the extra civilian staff, police officers, in 2005–06, were still spending 21.7% of their time on paperwork. In a remarkable exercise, Tayside police counted 1,150 different forms which they were supposed to fill out for various purposes – many of which asked for duplicate or completely unnecessary information. In 2004–05 the Metropolitan Police calculated that it spent £101.9 million – 4% of its budget – on non-incident-related paperwork, dwarfing the £42.2million it had spent investigating domestic burglaries.

Police bureaucracy has increased not just because of government diktat but also as a result of a risk-aversion on the part of police forces themselves. A culture has developed in which every conversation, however minor, with the public has to be recorded and where excessive details of minor crimes are taken down. Sir Ronnie Flanagan estimated that the police could free up to 40,000 hours a year, in a medium sized force, by making more concise reports of less serious crime.<sup>98</sup> He warned that the police were “strait-jacketed by process”.

“Stop and account” forms, introduced in response to Sir William Macpherson’s inquiry into the murder of Stephen Lawrence, are not only

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97 Flanagan, Sir R, *The Review of Policing: final report*, 2008

98 Ibid

adding unnecessary bureaucracy to what ought to be a straightforward and non-confrontational encounter with the public; the writing down of details is also counter-productive. It lengthens the conversation – the forms take an average of seven minutes to fill in – and creates alarm in the person being interviewed. There is no reason why a police officer should not be able to have a conversation with a member of the public – either eliminating them from further inquiry or establishing whether they are likely to have information justifying further interview – without making a record.

Police Community Support Officers need a clearer mandate. It is bizarre that PCSOs in 22 constabulary areas – including some of the most crime-ridden such as Merseyside – are forbidden from using force. Police officers can use force, as can the general public; at present PCSOs are the only people in the country who are forbidden from doing so. There needs to be national mandate for PCSOs setting out what they can and cannot do. At present, their powers are decided by chief constables and not publicised.

## Chase criminals, not targets

As in other public services targets have distorted policing priorities. In 2008 Chris Sims, chief constable of Staffordshire, admitted that his officers had been driven to concentrate on the arrest of very minor offenders in order to boost their clear-up rate of crimes. One officer revealed that he and colleagues had taken to patrolling every alleyway in order to catch people urinating in public – it was an offence easy to detect and to “solve”.

Some may argue that the Staffordshire police were merely following the “broken windows” theory advanced by the US sociologist George Kelling in 1982 and which went on to influence the zero tolerance approach to policing in New York in the 1990s. This thesis states that if you leave a broken window in a building you will encourage vandals to break more and may end up with the building being squatted in by crack addicts. By implication, if you spend time solving small crimes you will discourage big ones. When put to the test in New York, beginning with a blitz on fare-dodgers on the subway, it led to a substantial fall in serious offences, including murder.

But there is a big difference between the way zero tolerance has been applied in US cities and the blitz on small-time offenders prompted by a target culture in Britain. In New York police used the capture of petty offences as a way of leading them to the big criminals. An important element was the conduct of background checks on everyone caught committing minor

offences. This proved to be an effective way of picking up criminals wanted for bigger crimes. In Britain, by contrast, the capture of small-time offenders has become an end in itself. In many cases it is not even conducted by the police. The power to impose fixed penalty notices for offences such as fare-dodging and dropping litter has been devolved to “approved persons” – private security staff accredited by the local constabulary. Many of these security staff are employed on unhelpful incentive structures. Several British cities, for example, are now patrolled by litter wardens who are paid commission on every offender caught; and as a result they tend to spend their time capturing easy targets such as a mother in Hull who dropped a fragment of sausage roll while feeding her young daughter. Their incentive structure does not encourage them, by contrast, to tackle gangs of aggressive louts who litter the town centre at midnight with beer cans and junk food cartons. The British version of zero tolerance, therefore, achieves the exact opposite of the New York version: minor offenders do not come into contact with the police, and so cannot be cross-checked for other offences. And it is the wrong minor offenders, the soft targets, that are getting caught.

As an example of a perverse target, in 2003 the Home Office demanded that police forces achieve a 5% annual increase in the number of persistent offenders brought to justice. A persistent offender, as defined by the Home Office, is one who has been convicted at least six times in the past 12 months – it is a group, in other words, which by definition is already being brought to justice at painfully regular intervals. The problem is that they are not being reformed. The target incentivised police forces to achieve an even greater arrest rate of this group of small-time crooks – and disincentivised them from pursuing big-time criminals who have evaded capture. The former head of the Police Federation, Jan Berry argues that “As a result of Government diktats, the service has been reduced to a bureaucratic, target-chasing, points-obsessed arm of Whitehall.”

Police effectiveness has been further hampered by changes in charging procedure introduced by the Government in 2003. Since then, custody sergeants have been unable to charge suspects directly, having instead to apply to the Crown Prosecution Service. The police have to fill in several forms and visit the CPS in person, taking up hours of their time. The CPS, driven by government demands to increase conviction rates, has adopted a softer attitude towards charges. According to Simon Reed, vice-chairman of the Police Federation, charges are routinely downgraded to increase conviction rates: actual bodily harm reduced to assault, drug-dealing to possession of drugs

and mugging to theft against the person.<sup>99</sup> The police, knowing that the CPS is unlikely to bring charges, will often issue a caution instead. In 2005, there were 423,010 people charged with crimes and 333,420 issued with a caution; by 2007 the number of people charged had fallen to 405,000 and the number given cautions had risen to 357,222. While the Crown Prosecution Service boasts that the conviction rate has increased from 74% to 80%, the reality is fewer criminals being brought to account.

## Why don't our prisons stop people reoffending?

The most obvious result of the Government's newfound toughness on crime has been the sharp increase in the prison population. This began under Michael Howard, when he was Home Secretary, but continued under the present administration. Between 1995 and 2009 the prison population increased by 32,000 or 66%, both as a result of the courts sentencing more people to prison and of prisoners serving longer sentences.<sup>100</sup>

Prison works in so far as criminals cannot commit crimes in the community while they are behind bars. But we will never make a big impact on reducing crime as long as prisoners don't undergo reform while they are inside. Reoffending rates for those who pass through the criminal justice system are shockingly high: 65% of those released from prison have been reconvicted within two years. The real rate of reoffending which goes unrecorded is far higher.<sup>101</sup> Serial offenders – those who have served ten or more custodial sentences – are reconvicted for an average of 4.47 offences in the 12 months after they are released.<sup>102</sup> Prison, therefore, is failing to deter a class of criminals from embarking on a career of crime.

Why? Because our prisons could not be better designed as an environment for producing career criminals. Custody promotes contact with other criminals and deprives inmates of contact with their families – even the cost of phone calls home is prohibitive. It removes offenders from a work environment, creating institutionalisation and dependence, and puts them where they are well-placed to learn new skills from fellow prisoners.

One of those skills is how to obtain and use drugs. One fifth of all male drug-users have been found to have had their first experience of drugs while

99 *Daily Mail*, 17th March 2009

100 *Story of the prison population 1995–2007 England and Wales*, Ministry of Justice 2009

101 *Re-Offending by Adults: Results from the 2004 cohort*, Home Office, 2007/8 Performance

102 *Re-Offending of Adults: Results from the 2007 cohort*, Ministry of Justice Statistics Bulletin 2009

in jail.<sup>103</sup> It is hard to believe, in a supposedly secure environment, that so many drugs can be smuggled inside. A Home Office study in 2005 found that one quarter of prisoners admitted to having used drugs in the past 30 days.<sup>104</sup> At present there is little good information on the supply – anecdotally, procedures to prevent prison officers bringing drugs in are weak and the UK does not follow the US practice of screening off prisoners from their visitors. Both of these routes should be shut off. The belief that drugs are helpful in sedating prisoners – part of the invidious idea that “prisons are run with the consent of the prisoners” – should be challenged.

Overcrowding exacerbates the failures of the prison system. It increases the stress on inmates and staff, and leads to prisoners being shunted from prison to prison, making it harder for them to settle. Overcrowding also leads to early release schemes and other emergency measures which are harmful to rehabilitation and put the public at risk. Under the new “standard core week” introduced in April 2008 prisoners are subjected to an extended weekend lock-up beginning on Friday afternoons, thus reducing the opportunities for education and rehabilitation, and increasing frustration.

Conditions inside jails are not helped by the practice of automatically releasing whole swathes of prisoners at, or even before, the halfway point of their sentence. Justice Secretary Jack Straw has called this system a “benign deception of the public”. Misleading sentencing certainly doesn’t deceive the prisoners: what incentive do they have to behave well, address addiction issues and meaningfully engage with education or work opportunities when they know they will be released early regardless?

It should be a priority to redesign prisons with a view to reducing their role as universities of crime. Prisoners should spend less time hanging around and more time engaging in useful work. Prisons should be turned outwards, so that the prisoner retains as much contact as possible with the outside world – and as little contact as possible with potential accomplices. This will entail the construction of smaller, neighbourhood prisons where vetted family and friends can visit daily but where there are fewer inmates with whom to associate. The government’s plans for Titan jails, housing up to 1,500 inmates, is taking policy in entirely the wrong direction.

Rehabilitating prisoners ought to be the central function of a jail. Vast resources are committed to catching and convicting prisoners and it is a huge waste if they are allowed to leave without being reformed. Yet at present

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103 *Lords Hansard*, 14th November 2007

104 *Home Office Findings 223: the impact and effectiveness of mandatory drugs tests in prison*, Home Office 2005

rehabilitation is minimal. Prisoners who have no education while inside are estimated to have three times the reoffending rate of those who do.<sup>105</sup> And yet less than half of prisoners who took part in the Prison Diaries Project in 2004 spent any time in education and 60% had no vocational training.<sup>106</sup>

Prisoners are habitually released onto the street with little cash, with no check as to whether they have anywhere to live, whether they have access to further treatment or need help finding work. Only 30% of the 90,000 prisoners released each year have accommodation, and yet only one in five receives support or advice in finding a home.<sup>107</sup>

At present prison governors are assessed mainly by whether or not their prisoners escape or riot. In the future they should be judged on how many of their prisoners go on to reoffend – and the figures made public on a prison-by-prison basis. At present there is little incentive for anyone to prepare convicts for life on the outside. No wonder so many go on to reoffend: for many criminals prison is the only home they know.

## Reducing the costs

The immense cost of keeping people in prison is rarely given the consideration it deserves. Each prisoner costs £37,500 a year – about half as much again as the average Briton earns in full-time work. It should be possible to reduce this bill without compromising the fight against crime.

We do not need to be playing the role of world's jailer: around one in eight prisoners – 10,000 – is not a British citizen. By the time they are released, many of these prisoners have lost contact with friends and families abroad and by virtue of this they gain leave to remain in the country. Learco Chindamo, convicted of the murder of the London headmaster Philip Lawrence, won a ruling in 2007 allowing him to remain in Britain after his eventual release from prison on the basis that his links with his native Italy had been severed. Just two weeks earlier Gordon Brown had assured the country: "if you commit a crime you will be deported. You play by the rules or you face the consequences." This absurd situation could be averted if foreign criminals were repatriated in order that they serve their sentences abroad – at much lower cost to the British taxpayer. There is no reason why, say, Jamaicans convicted of drug-smuggling to Britain should not serve their sentences in a lower-cost prison in the Caribbean.

105 *Reducing Reoffending by Ex-Prisoners*, Social Exclusion Unit 2002

106 Home Affairs Select Committee 2004

107 *Home Office Findings 248: Resettlement Outcomes on release from prison*, Home Office 2005

There is a greater role for privately built and run prisons. Eleven private jails opened since 1991 have saved the taxpayer £200 million through greater efficiency in management systems. The involvement of the private sector should not be limited to new and failing prisons: companies should also be allowed to compete for contracts to run jails alongside the public sector. Payment should be heavily dependent on the companies running jails to reduce reoffending rates. Competition would foster innovation in the design of prisons and in the educational and rehabilitation services offered inside.

Funds could be released to expand the number of prison places through redeveloping some of the older prisons, many of which are needlessly located in prime property sites. It has been estimated that redeveloping ten prisons could, besides modernising the buildings and improving conditions within, net a profit of £215 million, which could be used to provide additional prison places elsewhere.<sup>108</sup>

Much more effort needs to go into reintegrating prisoners into the community. This entails organising smooth transfers from prison-based support to community-based support. Prisoners should not just be released onto the streets. They should be escorted by an appointed worker who can assess their needs – for accommodation, for training, for drug, mental health or other treatment, and who would keep in touch over many months. There should be more mentoring schemes. There is no reason why private providers and the voluntary sector should not bid for the job of offender-management services, and be paid by results in reducing reoffending rates. At present we botch rehabilitation as badly as we run prisons.

## The Probation Service – losing its way

Mary-Ann Leneghan was 16 when, in 2005, she and a friend were kidnapped by a violent gang and taken to a hotel in Reading, where the two girls were tortured and sexually abused for several hours. They were then taken to a park where Mary-Ann was stabbed 40 times. She died, but her friend survived in spite of being shot in the face.

What was so remarkable about this case was not just the extreme nature of the violence but the fact that four out of six gang members who were later convicted of murder were supposedly under the supervision of the Probation Service. One of them had been previously convicted, aged 13, of fracturing a

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108 Lockhart, G et al, *Unlocking the Prison Estate: modernising the prison system in England and Wales*, Policy Exchange 2007

child's skull, was under a detention and training order for assaulting two taxi drivers and was about to begin a community sentence for assaulting a police officer.<sup>109</sup> If anyone deserved one of the Government's extra prison places, surely it was he.

The Leneghan case was far from the only one where a convicted criminal committed murder while under the care of the Probation Service. Damien Hanson, who was convicted of the murder of the financier John Monckton at his Chelsea home in 2004, had three months previously been released half-way through a 12-year sentence for attempted murder – yet the Probation Service subjected him to a low level of monitoring. Peter Williams, convicted of the murder of Marian Bates in her Nottingham jewellery shop in 2003, was supposed to have been wearing a tag at the time of the murder, having been released from a young offender institution three weeks earlier. He remained free despite having missed seven out of 11 scheduled meetings with the Nottingham Youth Offending Team since his release.<sup>110</sup> Two days after being released on licence from a jail sentence for robbery Dano Sonnex, a career criminal from South London, threatened a pregnant woman and her partner with a hammer. He was then arrested and charged with handling stolen goods, yet the Probation Service took 33 days to deal with his recall to jail – and the police a further 16 days to seek his arrest. By that time he had robbed and murdered two French students after breaking into their flat and finding that he couldn't withdraw money with one of their cash point cards.

The Government has acknowledged the failures of the probation service in these cases and others. An inquiry ordered by the justice minister Jack Straw after the Sonnex case found further shocking failures. Only a quarter of high risk offenders were visited at home after release from jail – though the rules require it. Only in 40% of cases was the Probation Service found to be paying sufficient regard to the safety of victims. Probation officers were overburdened with an average of 50 cases each. There was a high rate of absenteeism and a malfunctioning IT system.<sup>111</sup>

Yet the Probation Service had already been reformed by the Government. In 2004 it was merged with the Prison Service to create a National Offender Management Service (NOMS) charged with the care of convicted criminals outside as well as inside prison. The result is a mess which has failed to reduce reoffending rates. The role of the Probation Service is unclear. It is torn

109 *The Times*, 20th March 2006

110 *The Times*, 22nd March 2005

111 *The Times*, 2nd November 2009

between rehabilitating the offender and protecting the public. Until 2001 its motto was “advise, assist and befriend”; since then its stated purpose has been “enforcement, rehabilitation and public protection”. In other words, a service dedicated to rehabilitation has been remodelled into one which is supposed to do both jobs.

We need a body which is dedicated to protecting the public from prisoners after their release and which, when there is an issue of public safety, has the power to over-rule agencies who are performing the advising and befriending role. And again, bureaucracy needs to be reduced: according to an internal government review red tape consumes 75% of a probation officer’s time, with just 13% of time left for contact with offenders.<sup>112</sup>

Rehabilitation work might better be farmed out to charities and private companies which are better skilled at such work. Prisoners serving sentences of under 12 months do not even come under the remit of the Probation Service and tend to slip through the net. It is wrong that such a large and important group do not receive any attention after release from jail. Offender-management should encompass everyone who has been through jail, with the aim of reducing the chance of them returning. Private companies and charities should be allowed to tender for this work, with payment dependent on reducing reoffending rates.

## Weak on the causes of crime

While money has been lavished on the police and prisons, there has been considerably less spending and attention devoted to the other side of Tony Blair’s promise: to be tough on the causes of crime. Crime and disorder-reduction partnerships (CDRPs), founded at the time of the Crime and Disorder Act 1998, were supposed to bring together the police, local residents, businesses, the probation service, health authorities and charities to drum up ways of preventing crime. In practice, however, most of them concentrated on one task: making domestic and commercial premises more secure. This may make crime harder to commit, but it hardly tackles the underlying causes of criminality. A huge proportion of crime prevention money has found its way into CCTV systems, though there is little evidence that they are an effective use of resources. Between 1997 and 2006 police forces and local authorities spent an estimated £500 million on CCTV systems.<sup>113</sup> In 2005 the Home Office un-

112 *The Times*, 30th October 2009

113 *A Report on the Surveillance Society*, for the Information Commissioner by the Surveillance Studies Network 2006

dertook a study comparing crime rates in 13 areas with the cameras to areas without them. In only two of the areas had there been a statistically significant reduction in crime after the cameras had been installed, and in seven areas crime had actually increased.<sup>114</sup> One person who wouldn't be surprised by this is Suresh Kumar, whose corner shop in Plaistow, East London, has been raided 200 times in the ten years to 2007 – despite the CCTV camera installed in the premises. CCTVs have proved to be of little use as a deterrent, and of limited use in solving crimes. According to the Home Office's own figures, four out of five images requested by the police or the courts turn out to be of no use, either because the images were blurred, or the cameras weren't facing the right way or because the suspect was obscured. Not that the police often got round to requesting the images. In 2008 Detective Chief Inspector Mick Neville, who supervises use of CCTV for the Metropolitan Police admitted that in many cases police officers investigating crimes did not bother searching for images because it was "hard work".

CCTV systems have been set up with little regard for the practicalities involved in using them. Many towns now have hundreds of cameras – with hardly anyone watching them. In 2009 Worcester City Council, faced with the need to make cuts, reduced the £140,000 a year cost of monitoring its cameras – thus rendering them useless as a means of detecting crime as it was happening. What if the money had been spent on policing instead?

With so much crime prevention money being sucked into what are really security measures relatively little effort has been put into programmes which genuinely tackle the root causes of crime. The 1998 Crime and Disorder Act introduced the Youth Justice Board. Part of its remit was to establish youth offending teams to target young people at risk of descending into criminality and give them constructive activities. Yet the teams were provided with little money: most of the Youth Justice Board's budget ended up being spent on providing custody instead.

In theory, the Government has created a system whereby schools, children's services departments and social services all work together to keep children out of the criminal justice system. But sadly, there is a financial incentive for them to do exactly the opposite. When a child enters the criminal justice system he or she ceases to be the financial responsibility of the local authority's various agencies and instead becomes the responsibility of the Youth Justice Board. In other words, councils can reduce their expenditure by shunting as many troublesome children as possible into the criminal justice system. While this saves

114 *Assessing the Impact of CCTV*, Home Office Research Study 292, 2005

councils money the burden on the taxpayer is huge: each place in a young offenders' institution costs £55,018 a year.<sup>115</sup> It may also go some way to explaining why Britain has more young people in custody or on remand than France, Germany, Ireland, Austria, Portugal and the Netherlands put together. If councils had to pay for the incarceration of youths who had passed through their social services and education departments more effort might be made to keep them out of custody.

As for other crime prevention schemes, money has been poorly spent and little ministerial energy put into them. There is, for example, a body called the National Crime Prevention Board, set up in 2007. It has had just five meetings, of which the Secretary of State for Justice attended one and the Secretary of State for Children, Schools and Families two.

Instead of a structured approach to the prevention of crime, ministers have too often fallen back on poorly thought-out initiatives whose main achievement is to create a headline. The Government's response to a spate of knife violence among youths in London in 2008, for example, was a proposal to force youths caught carrying knives to visit the victims of stabbings in hospital. As well as being potentially alarming for the victims, there is little evidence that such shock tactics work. A similar idea was tried in the US: under a programme called Scared Straight, juvenile delinquents were taken on visits to prisons. As it turned out, some evidently hankered after the lifestyle they encountered there: an analysis suggested that the delinquency rate actually increased among youths put on the scheme.<sup>116</sup>

By contrast the Government's Youth Inclusion Programmes (YIP) have shown promise, though their scope has been limited and they are little known about. The programmes involve identifying potential offenders in high crime areas and giving them somewhere to go where they can learn employment skills, receive careers advice and encounter positive role models. An independent evaluation concluded that the arrest rates for youths most at risk of offending fell by 65%.<sup>117</sup>

There is support for this approach from the US city of Boston, where the City authorities in the mid 1990s were faced with a spate of gun violence among young gangs – there were 44 youth homicides a year between 1991 and 1995. By 1998 that number had fallen to 15, thanks in part to a strategy by

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115 Chambers, M, *Arrested Development: reducing the number of young people in custody and reducing crime*, Policy Exchange 2009

116 Vito, G, 'Developments in Shock Probation: a review of research findings and policy implications,' *Criminal Justice and Behaviour*, 10 1983

117 Evaluation of the Youth Inclusion Programme: [www.yjb.gov.uk](http://www.yjb.gov.uk), 2003

which high risk offenders were targeted and brought to “lever-pulling” meetings with the police. These warned of swift prosecution for gang members involved in violence, but at the same time drew attention to social and vocational services, including job placements.

## ASBOs – the zero tolerance measures that became a laughing stock

Anti-social Behaviour Orders (ASBOs) were introduced in 1999 as a means of tackling the kind of low-level criminality which blights neighbourhoods. They quickly became ridiculed. The orders enabled courts to forbid individuals from participating in certain activities or entering certain areas. Breaches of the orders could result in imprisonment of up to five years. But the system produced absurdities. Critics complained that many of the recipients were mad rather than bad, and that the constraints on their behaviour missed the point. A depressed woman in Avon was given an ASBO preventing her from throwing herself into rivers or onto railways lines, these being methods by which she had previously attempted suicide – there was no restriction on her throwing herself onto main roads or into the sea. A man in Teesside was given an ASBO preventing him from sniffing petrol on forecourts in the county – though there was no restriction on him travelling to a neighbouring county to indulge in his habit. A woman in East Kilbride was given an ASBO preventing her from opening her front door in her underwear. And so it went on.

While in theory ASBOs threatened long jail sentences for breaking their terms, in practice these powers were seldom used. In the first three years just 30 people went to jail for breaching an ASBO. This was not for want of people breaching them. In 2006 the National Audit Office reported that 55% of ASBOs had been breached. In one area, Durham, the breach rate was as high as 74%.

Partly in response to criticism of ASBOs the Government came up with Acceptable Behaviour Contracts (ABCs) and Penalty Notices for Disorder (PNDs) – which threatened troublemakers with £100 fines. Yet, as the National Audit Office reported, recipients of ABCs were even more likely to ignore them than were recipients of ASBOs. As for penalty notices, barely half of them are paid. The Home Office reported that of the 192,583 PNDs issued in 2006 only 74,182 were paid within the 21-day deadline and 26,068 at a later date.

Too much policy on youth offending has been target-driven. Handing out fixed penalty notices has become too easy an option for the police, as it helps

them “clear-up” a crime and meet performance indicators. There should be no target for these, and so no incentive to hand them out unnecessarily. The police should be encouraged, where it is appropriate, to deal with minor youth offenders by warning and by making them apologise to the victim of their anti-social behaviour. It is bizarre that we need a pilot scheme to test this notion – with the mangled title of Youth Restorative Disposal – when it ought to be commonsense.

Better evidence needs to be gathered about the effectiveness of ASBOs. We need to know at what rate ASBO recipients are reoffending. At present, the government is trying to reassure us that all must be well because 65% of recipients do not engage in further anti-social behaviour. But we also need to build up neighbourhood policing by ensuring that policemen on the beat stay in a neighbourhood long enough to build the necessary relationships. They need to be incentivised to remain where they are, not quickly to seek promotion elsewhere.

## Can courts solve problems?

Miami in 1989 was ridden with crack cocaine and associated crime. Offenders, when caught, would be sent to jail, then released straight back into the world of crime. So the city authorities set up a special drug court in which addicts were sentenced but kept out of jail – subject to their agreeing to a programme of treatment monitored by the judge. Crime fell sharply.<sup>118</sup> Since then, 2,500 similar “problem-solving” courts have been set up in US cities. One of them, the Red Hook Community Justice Centre in Brooklyn, formed the model for North Liverpool Community Justice Centre, set up in Liverpool in 2005. Offenders are kept out of jail by community sentences combined with drug rehabilitation programmes, monitored by the judge. Offenders have to return to court weekly and may have to provide urine specimens to prove that they are free of drugs – with the sanction of jail if they break the conditions. Housing, educational and vocational services are also provided under the same roof.

A study of the Liverpool centre in 2007 revealed several positive developments. 82% of suspects brought before it pleaded guilty – compared with 68% nationally. The centre also managed to bring cases to court more quickly and reduced the number of hearings – 2.2 per case as opposed to the regional

118 Berman, G and Fox, A, *Lasting Change or Passing Fad: problem-solving justice in England and Wales*, Policy Exchange 2009

average of 2.8.<sup>119</sup> There are other courts in Britain which now operate along similar problem-solving principles – though the Attorney General has ruled out further courts in the mould of the Liverpool one. We need more energy directed towards problem-solving courts.

## Getting a grip

Tony Blair's slogan "tough on crime, tough on the causes of crime" was right – but it is still waiting to be acted upon. We need to end the defeatist attitude towards crime which has poisoned the debate for a generation. The experience of New York since the early 1990s has demonstrated clearly that growing crime is not an inevitable result of a wealthy society – contrary to the assertions of some academics in the 1980s. Yet the same success is far from being attained in Britain.

As a starting point it is vital that the forces of law and order win the confidence of the general public. Police forces need to be made more accountable to local people, not to central government. At present, chief constables are answerable to police authorities – bodies of appointed councillors and other worthies who are vested with the task of giving strategic direction to the police force. But these have little resonance with the public. A government review in 2008 found that only 7% of people had heard of them. They should be abolished and police forces should, instead, should be answerable to directly-elected commissioners. These should have constituencies which are aligned with Basic Command Units – areas covering typically ten police stations and 400 officers. As a result, police would become more responsive to local concerns. At the same time, responsibility for more serious crime should be passed to regional police forces, better able to keep track of criminals on the move. The Home Secretary should be stripped of the power to sack chief constables – this should be the job of commissioners.

The public needs to be fully engaged in the fight against crime. At present this is not the case. There are too many instances where members of the public end up being prosecuted because they dared to restrain or manhandle a protester. Of course, the law needs to place limits on the right of citizens to use force, either in self-defence or in the defence of others or of property. The use of force must be proportionate. But it is vital that the police be given greater leeway in dealing with members of the public who have used force and to disregard petty accusations of assault against those defending people

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119 McKenna, Katherine, *Evaluation of the North Liverpool Community Justice Centre*, Ministry of Justice 2007

and property. The alternative is a public that opts out of playing a part in the control of crime.

We should not be shy of sending criminals to jail. It is not a failure of society that an offender needs to be imprisoned; the failure occurs when that offender leaves jail weeks, months or years later without any attempt to set them on a more positive course having taken place. In the long run, if we get rehabilitation right, the prison population should fall; but in the short term, it is clear that more jails will be needed. But no prisoner should be allowed to go through prison without proper education and training.

### **Action points**

- The police should raise productivity by outsourcing non-core tasks, encouraging forces to co-operate more, ending early retirement, and ending the national ban on solo patrolling. Police bureaucracy, like stop and account forms, should be abolished. And the role and powers of PCSOs should be clarified.
- The excessive and confused use of targets in the criminal justice system has created a fearful compliance culture which will need to be broken down and replaced by an outcome-oriented culture.
- We should elect police commissioners to help make sure the police are accountable to the public. The police had such elected oversight until the 1960s, but since then they have been forced to look upward to central government for instruction.
- The prison system and prison governors should be held accountable for reoffending. Reoffending statistics should be published for each prison. We should shut off the supply of drugs in prison, if necessary by better checks on prison officers and, if necessary, screening off prisoners from their visitors.
- Much more effort needs to go into reintegrating prisoners into the community. There is no reason why private providers and the voluntary sector should not bid for the job of offender-management services, and be paid by results in reducing reoffending rates. Offender-management should encompass everyone who has been through jail, and those on short prison sentences should no longer be excluded.
- Crime prevention programmes should be properly evaluated, and funding diverted to projects which are proven to work, rather than eye catching initiatives. Problem-solving courts appear to have potential to reduce offending.

## 7

## Education

Among Tony Blair's most remembered promises before the 1997 general election was to make his first three priorities "education, education and education".

His solution to the problems facing schools was very simple: he would spend more on more teachers, class sizes would fall and standards would rise. In his 1996 Labour party conference speech he promised: "There should be zero tolerance of failure in Britain's schools. I want a state education system in Britain so good, so attractive, that the parents choose to put behind us the educational apartheid of the past, private and state. By the end of a five year term of a Labour Government I vow that we will have increased the proportion of our national income we spend on education . . . I vow that class sizes will be down in primary schools and standards up in all schools."

Mr Blair certainly found the money to spend on schools. Between 1999–2000 and 2007–08 the amount of spending per state school pupil rose from £3,360 to £5,620. This helped lift state spending on education to the OECD average of 5.9% of GDP in 2006, according to the Department for Children, Schools and Families.

But it is not clear what benefit the country has seen in return for the extra spending. Employers complain about the lack of skills shown by school-leavers, British schoolchildren are slipping further behind in international comparisons of literacy and numeracy; and while the government boasts of improved exam results it is becoming increasingly evident that these results owe more to grade inflation and the manipulation of data for vocational exams than to genuine improvement.

Over time the Government moved away from a single-minded focus on "education". Instead of a Department for Education we now have the all-

encompassing “Department for Children, Schools and Families” (DCSF). As the name suggests, only one of its three main goals relates to education.

The department’s website, which is decorated with pictures of smiley cartoon people happily building a rainbow, declares that it aims to “secure the well-being and health of children and young people, safeguard the young and vulnerable, ensure an excellent education for all our children and young people, keep them on the path to success [and] provide more places for children to play safely.” Blink and you’d miss schools altogether.

While pursuing these wider social policy objectives, the Government has allowed its most important attempts at reform to run into the sand. Tony Blair took a political risk in pushing through academies – a new type of school which would have greater freedom from central control. But since he left office and his schools minister Andrew Adonis has been transferred, the academies programme has lost momentum, and new academies will not be allowed the same freedoms as earlier schools. Groups bidding to run an academy had to comply with a list of priorities, under standard school competition rules, of which improving educational achievement for children was listed fourth after: reducing health inequalities, improving sexual health, reducing unplanned teenage pregnancies and improving provision for children with special educational needs.

## **Are things getting better – or are standards slipping?**

The Programme for International Student Assessment, carried out by the OECD, a cross-border exercise which monitors the performance of 400,000 15 year olds across 57 countries, paints a bleak picture of progress in British schools over the past decade. In 2000 it placed Britain 7th for reading and 8th for maths. By 2008 Britain had plunged to 17th in literacy and 24th in maths. It is hard to see how this external assessment fits with the Government’s claims that rising GCSE results mark a genuine improvement in standards.

The numbers achieving good grades are certainly going up. Over the past 20 years, the proportion of pupils getting an A grade at A level has risen from 9% to 27%. Yet this record is widely derided as the result of grade inflation. Meanwhile, the Government has frequently denied any debasement in the school exam system. It has attempted to close down debate on the subject by intimating that any attack on GCSE results was an attack on the hard work of pupils and teachers. Yet research by Durham University concludes that an A grade today is the equivalent of a C grade in the 1980s.

Among those who think that the Government's claim to have improved the education system is a mirage is Chris Woodhead, former Chief Inspector of Schools, who has warned repeatedly about grade inflation in school exams. He blames a rise in A-level grades on a change in the nature of the exam. Whereas in the 1980s candidates would be asked questions with open-ended answers, now there are shorter questions, "designed to lead the candidate by the nose to the right answer".

Grade inflation has not escaped the notice of employers, either. In 2006 the CBI reported that its members were increasingly compelled to look abroad for recruits due to declining education standards in Britain.<sup>120</sup> The point has been reinforced by Terry Leahy, chief executive of Tesco, which employs 40,000 staff under the age of 19 and which Mr Leahy says has to allocate time teaching recruits basic literacy and numeracy.<sup>121</sup> After years of denial, those in charge of exams are beginning to accept that there has been inflation. Jerry Jarvis, head of the exam board Edexcel, has suggested a complete overhaul of the grading system so that the value of grades could be "recalibrated" to make it harder to achieve each level. Greg Watson, head of the OCR exam board accepts that it is time to "crank up the standard".

The Government proposes to introduce an A\* grade at A level, as it already has at GCSE. But this is the equivalent of printing ever higher denomination banknotes, and is unlikely to restore confidence in the system.

We need a reformed examination system which can regain the confidence of employers, universities and the general public. This will not be achieved until we have a body which, unlike the Qualifications and Curriculum Authority or the newly rebranded Qualifications and Curriculum Development Agency, is truly independent of government.

## Soft subjects?

Standards have also been diluted by the proliferation of softer, quasi-academic subjects. The growth of Media Studies GCSE, which reached 59,071 entries in 2006–07 is well-known. Less known about is a course entitled Performing Engineering Operations which involves students going on a one-day a week course at college and yet is deemed to be worth six GCSE passes at A to C for the purposes of school league tables. Vocational qualifications are, of course,

120 *Daily Telegraph*, 14th August 2009

121 *The Times*, 14th October 2009

essential, but they must not be allowed to be used as a means by which the Government exaggerates academic attainment.

In contrast to the growth of ill-defined vocational subjects there has been a disturbing collapse in the numbers of state pupils taking rigorous academic GCSEs. Only 46% of England's state schools entered a pupil for the traditional science GCSEs; Biology, Chemistry and Physics. The majority entered pupils for a general multiple-choice science GCSE, biased towards the public impact of science rather than scientific principles. One question from a recent GCSE Science paper read: "Why is wireless technology useful?" – the correct answer being "No wiring is required".

The number of pupils taking languages at GCSE has collapsed. The Government's decision in 2004 to drop the requirement for pupils to study modern languages beyond the age of 14 has had disastrous consequences, and sits somewhat oddly alongside the Government's desire to expand the understanding of other cultures. The number of entries for languages at GCSE plunged from 547,189 in 2003 to 382,228 in 2008. In 100 out of 150 local authority areas fewer than half the children now take a GCSE in languages.<sup>122</sup>

History, too, has been debased, and the GCSE curriculum no longer offers pupils a thorough, chronological overview. In one GCSE syllabus, for example, pupils study the history of medicine from 10,000 BC to the present day, the American West 1840–95 and have to complete two assignments on multicultural Britain and local history.

The proliferation of "soft" subjects has led to perverse new forms of discrimination. Many universities will not accept A levels in "softer" subjects – but they are not always open about this. They look unfavourably on media studies, fashion etc, but also on some less obviously "soft" subjects such as law. As these non-traditional courses are disproportionately taken by pupils from less wealthy backgrounds, they are unwittingly putting these pupils at a disadvantage.

One of the first tasks must be to devise an examination system which properly caters for the whole spectrum of abilities – which the GCSE manifestly is not doing. As universities frequently complain, so many candidates are achieving grade A and A\* that it is becoming impossible to distinguish between the good and the very good. GCSEs are not stretching the brightest pupils, but then neither are they catering for people at the lower end who will always struggle with an academic examination.

The school system is failing because it has tried to merge academic and vocational education instead of deciding which subjects would be best suited

to each category. Both end up as losers. The Government's proposals for the diplomas with which it wants to replace A levels include a module on hair-dressing taught entirely in the classroom. We need rigorous academic exams, and rigorous vocational examinations, with pupils able to choose the direction that suits them and knowing that the qualifications they gain will be regarded as worthwhile and useful in later life.

### Is the current system fair?

Despite significant rhetoric, little progress has been made towards the goal of achieving greater equality of opportunity. Of the 75,000 children on free school meals each year (about one in eight of all pupils), four out of ten fail to get even a single C grade GCSE. Only 189 of these 75,000 go on to get three As at A level – compared with the 175 three As pupils produced by just one school, Eton. Independent schools, which educate just 7% of pupils, produce more pupils who get three As at A level than all comprehensive schools put together.

The current comprehensive school system, with no choice or accountability, has not eradicated the advantage held by middle-class children, and never will. In 2009, 50% of A level papers marked in independent schools were graded A. The figure for comprehensive schools was 20%. This independent versus comprehensive gap was 24 percentage points in 2002 but has now risen to 30.<sup>123</sup>

And it isn't just private schools. Tony Blair himself resorted to a tactic common among those with children at comprehensive schools: he employed a tutor for his children, a form of private education on the side, the prevalence of which is seldom acknowledged. According to the Sutton Trust, 43% of 11 to 16 year olds at state schools in London receive extra tuition outside school, paid for privately.

At the same time, the advent of comprehensive education has coincided with a remarkable fall in social mobility. A study funded by the Sutton Trust in 2005 compared social mobility in two cohorts: one born in 1958, the other in 1970. In the latter, the poorest quartiles were considerably less likely to progress up the income scale by their early 30s than were the former.<sup>124</sup> The blame was placed on the declining access of the poor to higher education.

Though school choice is forbidden and schools are banned from selecting according to pupils' ability, middle class parents nonetheless have the

123 JCQ, *A-Level Results*, 2009

124 Blandon, Jo, Gregg, Paul, and Machin, Steve, *Intergenerational Mobility in Europe and North America*, Centre for Economic Performance, LSE, 2005

economic advantage enabling them to play the system in a way that poorer families usually can't. A study by the Centre for the Economics of Education 2001 – at an early stage of the property boom – found that for every 5% improvement in the proportion of 11 year olds reaching Key Stage 2, level four in their Sats tests, there is a 2.6% increase in house prices.<sup>125</sup>

But while some move house to play the system, other middle class parents simply exit from the state system altogether. Even politicians supposedly ideologically committed to state education and the comprehensive ideal, such as Diane Abbott, have sent their own children to private schools. So much for “ending educational apartheid”.

## It's not about shiny buildings

One of the reasons why we haven't seen a big improvement, is that much of the money spent on education over the past decade has been misdirected. One example is the huge emphasis on renewing the physical fabric of schools – and not just in academies. Under the ambitious Building Schools for the Future programme the Government has committed £55 billion towards the rebuilding or refurbishment of 3,500 secondary schools by 2020. There was good reason for investing some cash in buildings. The Audit Commission had released a report in 2002 dubbing the school estate a “maintenance time bomb”. But the government wanted a grander legacy than functioning toilets, heating and roofs. Rather than just repairing buildings it decided that it would fund a building programme that would be about “educational transformation”. Sadly no one involved in this huge programme seems to know what that means, fuelling a need for more and more costly advisers.

A shocking amount of the money so far spent on the project appears to have found its way into the pockets of administrators. Partnerships for Schools, the quango set up to oversee the programme, has been revealed to be paying its staff an average of £85,000 each – and yet it has still managed to spend £11 million on outside consultants.

There must also be questions as to whether local authorities are not using the rebuilding programme as a means of realising profits from their schools' estate. Many schools are being rebuilt on sites which are smaller than those of the old schools – the excess being sold to developers. This may leave these schools short of space for future expansion. In Peterborough, for example, the city council in 2003 spent £100 million reorganising the city's

125 Gibbons, S, and Machin, S *Valuing Primary Schools*, Centre for the Economics of Education 2001

secondary school education, replacing five schools with two larger ones. Yet the plan, which led to a reduction in 1,900 school places believed to be surplus, failed to take into account the rapidly expanding city or foresee the growth in Eastern European immigration which, by 2007, had already filled the schools.

But even if Building Schools for the Future was not always wasteful there are serious questions as to whether knocking down and replacing schools, some of which are only 30 years old, is really a sensible priority for education spending. While it is good news for architects, there is little to suggest it will benefit children. Poor buildings have a negative impact on pupils, but there is no clear evidence to suggest that shiny multi-million pound new buildings will raise attainment. Professor John Hattie of the University of Auckland has analysed a large number of worldwide studies into the influences on educational attainment. He concludes that the intelligence of students themselves accounts for 50% of the variance in attainment. A further 30% can be put down to the quality of teaching, between 5 and 10% to students' home environment, 5–10% to the influence of students' peer groups and a further 5–10% to the physical and organisational aspects of schools.

Find the right teacher and it matters little whether teaching takes place in a bright, modern building or a Victorian schoolhouse. Indeed, many “free schools” in Sweden have achieved good results while renting premises in redundant office blocks or even fire stations Kunskapsskolan, which runs a chain of Swedish schools, spent £1 million building a school for 350 pupils – compared with a typical £30 to £40 million spent on the buildings of a typical British academy for 1500 students.<sup>126</sup>

## Inspection won't solve the problem

British schools are certainly not failing for want of testing and inspection. In 2007–08 Ofsted spent £77.7 million inspecting schools. The reports are widely read and form part of parents' choice of schools for their children. But like the Government, Ofsted is more interested in processes than it is in outcomes. Our research shows that inspections are far too reliant on data obtained before the inspectors even set foot in the school. As one head told us: “Now you get two days' inspection and you get two people and they basically look at statistics and then judge the school on that. What they see in the school doesn't really matter.” New shorter two-day inspections mean that inspectors don't have time to

126 Meyland-Smith, D and Evans, N, *A guide to school choice reforms*, Policy Exchange 2009

watch much actual teaching. In the past, all full-time teachers were observed, but now inspectors sit in on far fewer lessons, and often don't stay till the end.

Given that there is nothing more important in a child's learning process than the quality of teaching, it seems strange that inspectors now spend so little time finding out what is really going on in the classroom. Why is Ofsted wasting time inspecting even good schools in this light touch way that won't really tell them anything new? Wouldn't it make more sense to carry out much more detailed inspections – with more useful feedback – on schools that are performing badly or eliciting complaints from parents? This could be matched with spot check inspections on a random sample of schools every year, giving a true picture of what is really going on in our schools.

## Losing focus: why education can't solve every social problem

Education has suffered as a result of schools being used as a means of achieving social policy objectives. Ofsted, which was set up to inspect schools, has taken on a multitude of inspection regimes, including social workers, child-minders and youth-offending units. The result is an unwieldy organisation whose purpose has been diluted and weakened.

Genuine education also loses out to the latest fashionable initiatives. For example, when the Government faces a pressing topical issue such as knife crime, it attempts to solve it through the education system. A spate of news stories about obesity quickly becomes translated into demands that schools teach healthy eating. The science curriculum is then amended to make way for material on balanced diets – and the rest of the science curriculum is weakened.

Citizenship classes have become the Government's latest fixation, repackaged for schoolchildren. The education bill presented in the Queen's speech in 2009 promises to make lessons in healthy eating, active lifestyles and mental well-being a statutory requirement. Among the subjects added to citizenship is an "animals and us" section, which teaches children not to stamp on insects. Nursery teachers are now required to assess the "emotional competence" of the under-5s. Fourteen year olds are taught counselling techniques in order to support younger pupils. An obsession with mental well-being has had counter-productive effects, with older pupils increasingly seeing themselves as damaged. In one university 1,000 students self-diagnosed themselves as suffering from low-level mental disorders.<sup>127</sup>

The constant flood of new initiatives aiming to use schools to achieve wider social goals distracts both the ministry and schools from focusing on their main purpose. One head teacher recently complained that on one morning alone 39 new initiatives from the DCSF landed on his desk.<sup>128</sup> It is vital that we return to having a ministry dedicated to education and that the curriculum be freed from political interference.

## The right approach: new freedoms for schools

Tony Blair did not ignore his promise to concentrate on education reforms. He eagerly expanded a fledgling Conservative programme of city technology colleges under a different guise, academies. These independent, or semi-independent, state-funded schools, run by charitable trusts with relatively little state interference, have formed a big role in seeking to improve the educational chances of pupils in some of the most deprived parts of Britain. In as far as exam results can be trusted, academies have shown some success. According to a report by PriceWaterhouseCoopers in 2008, exam results at the first 27 academies have improved by 8% a year – four times the rate at other schools.<sup>129</sup> In some cases dramatic progress has been recorded. Academies have been able to achieve results through important freedoms such as the ability to pay better salaries to secure good teachers, and dumping long-cherished practices such as ending the school day at 3:30pm. By keeping children in school longer, academies are removing one of the main disadvantages suffered by many poorer children: the lack of a quiet space and help with homework.

Academies are certainly achieving one worthwhile objective: they provide a more socially-mixed cohort of pupils than was the case at the comprehensives they replaced. The new schools have seen a gradual reduction in the number of children eligible for free school meals – a standard measure of deprivation – suggesting that they are beginning to attract middle class pupils who would not previously have been sent to school in the poorer districts in which academies tend to be situated. While some people take this as evidence that academies are in some way unfairly selecting pupils, surely the creation of a greater mix of pupils in schools should be welcomed as a means of promoting equality of opportunity among children.

However, academies still only account for a tiny proportion of schools. By January 2009, 133 academies had been opened – just 3% of second-

128 Daily Telegraph, 29th November 2009

129 Academies evaluation: 5th annual report, DCSF, November 2008

ary schools and 0.5% of all schools. As a result, the academies programme has not made much impact on performance at a national level. In 2006 Tony Blair set an eventual target of 400, but this will be hard to achieve – even if the Government is still committed to it. The programme could be scaled up much more rapidly if profit-making education companies were not excluded.

## School choice works

As well as giving existing schools new freedoms, there is good evidence that standards can be driven up by allowing competition and choice between schools.

There is no reason why the state should have a monopoly in the supply and regulation of free education. The aim should be to break up the monolith that is state education, to bring in a variety of providers and to create a more effective market in school places to test new ideas and methods. That does not mean the state should not be involved in children's education; only that it should not seek to control all state-funded education.

In other countries school choice reforms have led to better performing schools – even where less money has been spent. In Sweden a fifth of all schools are now free schools. Like academies in Britain, they are independently run but state-funded. Nine out of ten parents of children at the free schools rate their school positively, compared to just six out of ten parents at normal schools. Children at these schools get higher grades, and surveys find that the teachers feel much happier. And all this despite the fact that they are given a quarter less money than normal schools.

In the US there are now 4,500 charter schools, educating 1.3 million children. Introduced in the early 1990s, and strongly encouraged by Bill Clinton and Barack Obama, charter schools have been mostly operating in poor communities and have enjoyed some spectacular successes. One example being KIPP (Knowledge is Power Program), which runs academically intensive schools in the poorest districts. Thirty-one out of 40 published studies show that charter schools have improved academic standards, which is remarkable given that on average such schools receive 20% less funding than ordinary state schools. In Arizona 61% of parents of children at charter schools rated their school as A or A-plus, compared to 38% of parents at normal schools. A survey by the US Department of Education found that teachers at charter schools considered themselves to have more influence over the school policies, the curriculum and discipline.

## Expanding school freedom, not rolling it back

Despite its success around the world, school choice in Britain is being pruned back for political reasons. One of the original principles of academies is that they were able to ignore the national curriculum. However, this is no longer the case for academies set up after 2007. The early ones were also allowed to employ teachers without formal teaching qualifications, in order to make use of staff with wider skills. This too has been restricted.

The arrival of academies has highlighted some of the inadequacies of the education system as a whole. If academies can succeed by being allowed to ignore the national curriculum altogether shouldn't ministers consider whether other schools, too, might be better off enjoying this freedom? Academies have demonstrated the advantages of being able to change the curriculum, the length of the school day and many other aspects of education.

It is time that regulation was reduced and all schools allowed greater freedoms. Outside inspectors should concentrate on schools with problems and should monitor teaching rather than checking processes. At the same time greater powers should be granted to head teachers and others in management positions to inspect teachers' performance, and they should be given advice in how to dismiss incompetent teachers where necessary. Equally, schools need to be free to offer incentives to keep good teachers. At present, nationally-negotiated wage deals with the unions make this difficult.

## Chain schools

Where a large number of schools are independent, as in Sweden, or in the private sector in Britain, they tend to form chains or federations. This makes a lot of sense. Very few businesses in Britain are run on a one-off basis. Imagine if there were no chain stores, but every shop was run on an individual basis. That, effectively, is how our schools system works. Furthermore the bodies supposedly in charge – school governors are groups of well meaning amateurs. We are so used to this structure that it can be difficult to see how peculiar it really is.

In a chain or a federation each head teacher would be answerable to a manager. The premises and finances of the schools would be organised along similar but parallel lines: a facilities department would oversee the fabric of a great number of schools, and the finances would similarly be controlled.

Such a system would offer general efficiency and free schools from much of the centralised bureaucracy to which they are currently subject. Chains can share educational experience, resources and back-office support, and develop

leaders who can then move around within their group. Schools and teachers would be able to draw on wider expertise and support – and have more time to get on with their jobs.

## Profit-making schools

Why cannot the provision of education in Britain be open to for-profit companies which can improve standards and achieve cost-savings through organisational efficiency? That is what happens in Sweden. The existence of profit-making chains, which use their returns to invest in new schools and improve on their success, has brought about the rapid growth of an independent sector in Swedish education. In 15 years the number of free schools has grown to 3,302. Free schools are efficient because they have to be: on a per-pupil basis they receive only 75% of the funding paid to state schools. And yet still they manage to make a profit.

Private companies are excluded from the academies programme, or from creating other new schools funded by government grant simply because this is regarded as a no-go area politically. Tony Blair and his advisers were well aware that there was no logical reason to exclude for-profit companies from the academies programme. Indeed, Mr Blair realised that he would be artificially limiting the supply of schools by not allowing profit, but he dropped this particular political potato when it became too hot to handle.

Politicians ought to be braver. Even a small number of such schools would provide local authorities with welcome competition and market-testing. Some authorities might wish to opt out of the provision of education altogether. There is no reason why local authorities should be the main provider of school education. It would be better if authorities with poorly-performing schools were able to pass them on to a specialist education provider, whether it is a private company or a chain of schools in state ownership.

## Better teachers?

Even if we get the overall framework right, there are other big changes we need to make. Educational policy does too little to encourage good teachers and to make teaching a high-status profession. The recruitment process is far too soft: one teacher was allowed to qualify after failing basic literacy tests 19 times and another after failing the basic numeracy test 26 times. Once in, teachers' development is stifled by an overly-prescriptive national curriculum and by an ill focused inspection regime.

Teaching is starved of talented individuals because it is perceived as a low-status profession. This is partly related to pay. But it does not help that the teacher training system is heavily focused on recruiting young people at the beginning of their working life and deters career-changers who have already established themselves in other professions. Teacher training remains too university-based with not enough practical experience in the classroom. The BEd degree is an example of what is wrong: it is an academic undergraduate course for aspiring primary school teachers which produces the least academically-able teachers and introduces them to the classroom too late. It should be phased out. Similarly, many talented people who might consider teaching are put off by the knowledge that they will have to take a year out to study for a PGCE to do so. There is a need to attract more quality graduates who have not thought about a career in teaching until they have completed university studies, or after they have spent several years in other professions. The Teach First / Teach Next programme, a scheme for graduates prepared to teach in the most challenging schools, goes some way towards achieving this. But these projects, which offer valuable on-the-job training instead of months spent in a classroom or lecture theatre, must become the default mode of training, rather than a small-scale experiment.

## Discipline

In 2005 Alex Dolan, a supply teacher also working as an investigative reporter, secretly filmed conditions in several Leeds schools where she had worked. The scenes she filmed presented a picture of anarchy. In one school she was threatened by a girl after asking her to switch off the music on her mobile phone. In another, she found herself standing between two boys each armed with a chair. The schools turned a blind eye to bad behaviour and devised means of hiding it from Ofsted inspectors. In one school she found a teacher in a classroom with the six worst behaved boys in the school, all eating cake. The teacher explained: "I've taken them out of the laboratory while the inspectors go round."<sup>130</sup>

Schools would provide much better education if they were not losing so much time through ill-discipline. According to a survey of 10,000 members of the NASUWT union each teacher loses an average of 50 minutes of teaching time every day because of discipline problems.<sup>131</sup> These problems do not end

130 *Sunday Times*, 29th March 2009

131 *Daily Telegraph*, 6th November 2009

at the school gates. The weaker discipline in a school, a Home Office report found, the greater the chances of pupils drifting into crime.<sup>132</sup>

The Government has not grasped the scale of the problem. Never before have children had so many rights. Schools have found themselves having to go to the High Court to defend their uniform policy against pupils who complain that their right to free expression has been compromised. Yet little regard has been given to the educational deprivation which results from poor discipline. Far from taking Ms Dolan's revelations seriously the General Teaching Council has sought to punish her by banning her from teaching.

Exclusions panels undermine the authority of schools too. Exclusions appeals panels overrule head teachers on expulsions in a quarter of the cases they hear; 40% of these pupils are then returned to the school from which they were excluded.<sup>133</sup>

Bad behaviour is also related to the high number of temporary teachers in many schools. In one of the schools in which Ms Dolan taught a girl had been moved to write to Tony Blair complaining of having had 26 supply teachers in just six months. Clearly this is a two-way process: if discipline is bad teachers are likely to leave their jobs, leading to the employment of even more supply teachers. We need to be able to pay higher wages in order to attract and retain staff – something which is made difficult by nationally-negotiated pay agreements.

In 2007, just under 18,000 pupils were suspended for attacking an adult.<sup>134</sup> The relationship between teachers and pupils has become badly unbalanced. We have gone from a situation in which a child who reported abuse would not be listened to, to one in which a pupil's word is strongly favoured over that of the teacher. A complaint from a child quickly leads to suspension of a teacher and referral to the police. Even when disproved such allegations remain on a teacher's record, damaging his or her chances of finding employment. A pupil found to have made false allegations against a teacher, by contrast, often suffers no punishment whatsoever.

In 2007 192 members of the NASUWT were the subject of allegations of physical or sexual abuse; yet only seven cases led to cautions or convictions.<sup>135</sup> The length of the investigations and suspensions, and the suspicion which attaches to teachers as a result, deters good people from the profession. The system for investigating misconduct needs to be rebalanced. Teachers who are

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132 *Research Report 19: Longitudinal analysis of the Offending, Crime and Justice Survey 2003–06*, Home Office 2009

133 Permanent and Fixed Period Exclusions from Schools in England 2006/07, DCSF, 24th June 2008

134 *Ibid*

135 *The Times*, 17th June 2009

the subject of false allegations must not have their records marked, and children who make false accusations must suffer consequences.

**Action points**

- We need a body independent of government to prevent grade inflation or standards slipping.
- The switch to a department for “Children, Schools and Families” has led to a loss of focus on education. The constant flood of new initiatives aiming to use schools to achieve wider social goals distracts both the ministry and schools from their main purpose. It must stop.
- Instead of bogus attempts to merge vocational and academic education we need rigorous academic exams, and rigorous vocational examinations.
- Inspection has limited potential to drive up standards.
- School choice appears to have led to dramatic improvements in other countries. It should be introduced in the UK with schools also granted wide ranging freedoms. Private providers should be allowed to take part.
- We should aim to make teaching a high status profession, and reform teacher training so that it is less abstract and more focused on on-the-job training.
- Teachers and schools should be given the authority to enforce discipline in schools and protected from malicious complaints.

## 8

# Universities

The name Laura Spence has hung over those making university education policy for the last decade. In 2000, the then comprehensive school pupil from Tyneside was rejected for a place to read medicine at Magdalen College, Oxford but went on to win a scholarship to study biochemistry at Harvard. The story surfaced in a local newspaper and was picked up by Gordon Brown who described it as an “absolute scandal” that Oxford had rejected a candidate “with the best A levels you can have” via “an interview system more reminiscent of an old boy network than genuine justice for society”.

This intervention set the tone for the Government’s interference in higher education. Universities have increasingly become subject to central government diktat: over admissions, over courses and over research. That will remain so as long as it is the Government that holds the purse strings. Universities need to be allowed to raise more money directly from students via higher tuition fees.

Britain’s best universities remain among the best in the world. The closest there is to a reliable, independent survey of international universities is provided by the Shanghai Jiao Tong University, which, in a project to establish a benchmark for Chinese universities, has compared the quality of research produced by universities elsewhere in the world. Britain has 11 universities in the top 100, more than any other country except the US, which has 54. Germany has five, France three and Japan three.

The mass expansion of higher education is broadly a good thing, but it was not sufficiently well planned. While billions have been pumped into research, teaching remains inadequately funded. As a result the ratio of students to staff is spiralling. As a result, students are less likely to be taught in small groups, and staff do not have time to give them decent feedback on their work. Courses

are often based on student popularity rather than employer demand, and there isn't enough useful data available for students and parents to decide which courses are worthwhile and which aren't. At the same time, the government has failed to raise the number of poorer students going to university, despite huge spending in this area. It has also overlooked the needs of older, part-time students who need to retrain midway through their careers, refusing to fund them on the same basis as younger full-time students.

## More universities

Until the 1960s a university education remained the preserve of the few: there were just 200,000 students enrolled in universities in 1960. Harold Wilson's government expanded the number of universities to 45, more than doubling the amount of students by the end of the decade. This number drifted slowly upwards until the early 1990s when John Major, who himself had missed out on a university education, allowed the polytechnics to become universities, with the result that the quantity of university students quickly expanded to a million and the number of universities to 90.

The problem with this rebranding exercise was that soon all universities aspired to fulfill the same mission. Polytechnics wanted to be seen as big hitters in research rather than simply teaching institutions – not least because they wanted some of the hefty government research budget distributed through a complicated funding formula called the Research Assessment Exercise. And so began the pretence that all universities are broadly similar. This doesn't help students, universities or politicians.

## Who should pay?

Tony Blair's Government sought to expand higher education still further: the number of higher education institutions has expanded to 166.<sup>136</sup> In order to fund expansion the Government introduced tuition fees, which began with a flat rate of £1,000 irrespective of which course a student was enrolled upon. In his second term Blair bit the bullet and fought hard to introduce top-up fees of £3,000 – a move that sparked a major backbench rebellion. These fees came with huge amounts of government support. Full-time students would no longer have to pay anything upfront. Instead, all students could take out a cheap public loan to pay for all their fees, and another to pay for their living

costs. They wouldn't have to pay back these loans until they'd graduated and started earning over £15,000. In addition there would be government grants and bursaries from universities for the least well off.

Despite this, top-up fees were attacked because they might deter poorer students, who would be more likely to fear big debts, from going to university. But such fears have proved unfounded. In 2007–08, the second year of fees, applications in England for students from the three lowest socio-economic groups rose by nearly 10%, and in 2008–09 climbed by a further 27%.<sup>137</sup>

There is every reason why graduates should contribute to the cost of their education. After all, they are the ones who benefit from it. According to a survey by PriceWaterhouseCoopers in 2007 graduates will earn 25% more – or £160,000 – over the course of their working lives compared with people who left school after their A levels.<sup>138</sup> The study found no decrease in this graduate premium as the number of graduates has grown, suggesting that demand for graduates in the employment market has kept up with the increasing supply of graduates.

There are also many reasons why top-up fees now need to go up. The financial future for universities is bleak. Every major revenue stream is under threat in the recession and the Government is certain to reduce its funding. This could mean a serious drop in quality, with universities cutting back on the maintenance of buildings, student to staff ratios rising further, core subjects such as languages and science being axed and classes crammed with international students. If we are to protect and retain Britain's position as a world leader in higher education, fees will need to rise.

But putting up fees won't be enough. If we want students to pay more they need access to dependable information with which to make choices about where to study. Universities must be made to collect and publish reliable data on job prospects, salary levels, contact hours and class sizes.

We also need to reduce the burden on the Treasury. Annual student lending has now reached £4.2 billion and the student loan book is a staggering £25 billion. If we want fees to go up we have to do various things to make that affordable, such as taking students from the wealthiest families out of the public loan scheme. The Government could set up a private loan scheme – at reduced rates – for them instead. And they should be offered a generous discount if they would rather avoid a loan completely and pay upfront.

137 Barr, N, *Paying for higher education*, 2009 p.17. Data sourced from UCAS website.

138 BBC News, 2nd February 2007

## Why don't more poor kids get to university?

In its 2001 election manifesto, the Government committed itself to a target of getting 50% of the population into higher education. It failed, however, to define what it wanted to achieve by increasing university participation. It offered no justification for this target – or why it should be 50% rather than, say, 40% or 60% or even 100%. Moreover, it has failed to fulfil the promise. The percentage of school-leavers who go on to take a degree stands at 38.7%, well below the target of 50% and only a fraction higher than in 2000. The OECD puts Britain in 14th place out of 24 developed countries for participation in higher education.

The Government has also failed in its commitment to widen access to university. Nearly a decade after the Laura Spence affair the richest 12 ACORN socioeconomic postcode-based groups – which account for 23.8% of UK households – provided 54.6% of students at the top universities (defined as those requiring three Bs at A level). The poorest 13 socioeconomic groups, who make up 21.8% of the population, provide just 3.2% of students.<sup>139</sup> The 7% of pupils who attend independent schools go on to take roughly half the places at Oxford and Cambridge.

A number of members of the Government have tried to blame universities for the failure to widen access to university. In their eyes, the Laura Spence affair created the impression that Machiavellian admissions tutors were barring the door to state-educated pupils.

The truth is much simpler, and much harder to deal with. It is schools that are failing the poorest children – the harm is done many years before they are old enough to apply to university. Attainment at GCSE and A-level is still by far the major predictor for participation in HE. And the shocking fact is that four out of ten of the 75,000 children eligible for free schools meals in the state sector fail to get a single C at GCSE, ruling them out of university entirely.<sup>140</sup> Private schools produce more pupils who get three As at A level than all comprehensives combined.<sup>141</sup>

The idea that there are large numbers of under-privileged young people with the right A-level grades who are walking away from university – or being turned away – is quite simply a myth. Of students from all socioeconomic backgrounds, about 95% for those with the best A levels, 90% for those with slightly less good A levels, and just under 80% for those with 12 A-level points

139 *The Guardian*, 3rd February 2009

140 *Lords Hansard*, 18th May 2009, Col. 1247WA

141 *Lords Hansard*, 23th February 2009, Col. 448WA

or less go to university.<sup>142</sup> University participation for students with three Bs and above is practically identical for the richest and poorest students.<sup>143</sup>

The best way to improve access to universities is to address the under-achievement among poorer pupils that starts in the early years and widens throughout their school years. There are also some specific things that can be done later in the system. The key is proper advice. State school pupils are often hampered because they have not been encouraged to take the right exams. The vast majority of top universities admit very small numbers of students with “soft” A levels – including Media Studies, Law and Psychology – favouring the traditional A levels instead. But currently only one university – the London School of Economics – publishes a list of non-preferred subjects. Other universities keep quiet about the subjects that may count against applicants. Of course, universities must be free to decide whether an exam course provides adequate preparation for a degree. But the lack of transparency is utterly unacceptable and unfair. A child who attends a good private or grammar school probably won’t even be offered these soft subjects. Non-selective state schools are far more likely to offer them. So subject choice has become yet another hurdle for children living in deprived areas, who want to go to university.<sup>144</sup>

Brown’s intervention in the Laura Spence affair was ill-judged. Magdalen College had interviewed 22 similarly promising candidates vying for five places and two of those places, it turned out, had gone to state school applicants. Even Laura Spence later admitted that she had not prepared well enough for her interview, and it was for a different course that Harvard had accepted her. The row was also counter-productive: applications to Oxford from state school pupils fell the following year.<sup>145</sup>

It isn’t just that people are failing to enter universities in the numbers that the Government wishes; those that do are failing to complete their courses. We have sleepwalked into a system where we care about cramming as many students as possible into our universities, but do not think hard enough about what happens to them when they get there. Many of the newer universities have suffered from high drop-out rates. In 2007–08, according to the Higher Education Statistics Agency, the University of Sunderland had a drop-out rate of 16.8% and Edinburgh Napier University one of 16.9%. Yet these statistics do not even include those students who left after less than three months.

142 Barr funding, p.25

143 Goodman, A and Wyness, *HE funding: ongoing work at IFS*, Presentation given to Universities UK, 15th September 2009

144 Fazackerley, A and Chant, J, *The Hard Truth about Soft Subjects*, Policy Exchange 2008

145 *The Times*, 14th October 2000

Moreover, the Government's 50% target failed to take into account the real demand for graduates. Of course government should not try to set targets for the numbers doing different degrees. However, employers report a desperate shortage of graduates in so-called STEM disciplines – science, technology, engineering and mathematics.<sup>146</sup> The greater demand for science graduates is also evident in the graduate premium – the money a graduate will earn over the course of a working life compared with a non-graduate – which varies from £340,315 for a medicine graduate to £34,494 for an arts graduate. Why are more not choosing these subjects? Partly because this kind of information is not made available, and partly because of the weakness of science teaching in state schools. If the vast majority of students are encouraged to study a multiple-choice catch-all science GCSE, rather than Biology, Chemistry and Physics, should we really be surprised that there aren't enough of them wanting to read tough science subjects at university? The decline of science at school and university needs to be reversed. All schools should be obliged to offer the individual sciences at GCSE.

Official government statistics suggest there is no problem, and that the number of students on STEM courses at university has grown from 379,000 to 515,000 in little over a decade. However, these figures are misleading because the definition of STEM courses has been widened to include subjects such as geography studies, nursing and nutrition and complementary medicine. Numbers have risen in medicine and dentistry, but they fallen in chemistry (down from 13,923 in 1997 to 12,515 in 2008) and in engineering and technology (from 90,930 in 1997 to 80,425 in 2008).<sup>147</sup>

Alongside degrees in traditional science subjects, a number of other specialist degrees has emerged, whose rigour has come into question. There are now 285 courses in Forensic Science, which was virtually unknown 20 years ago. The course has attracted applicants inspired by television programmes but is little trusted in the forensics industry itself, which continues to prefer applicants with pure science degrees. As Dr Angela Gallop of the Forensic Alliance told the Commons Science and Technology Committee “all the basic pure science you need to operate as a really good forensic scientist is missing”.

Instead of serving the interests of students, the policy of expanding higher education now seems to have been hijacked as a tool of urban regeneration. As part of the £150 million University Challenge programme, the govern-

146 Fazackerley, A and Richmond, T, *Science Fiction: uncovering the real level of science skills at school and university*, Policy Exchange 2009

147 Ibid

ment is planning to create 20 new university centres in towns which do not currently have a university. While good for image-building, the scheme offers little which does not exist already. Swindon, for example, is bidding for one of the new centres. Yet it already has campuses at the University of the West of England, Oxford Brookes University and Bath University.

## A second chance

A growing proportion of the student population is made up of older part-time students who missed out on higher education or are seeking to retrain in order to boost their employment prospects.

In spite of making up one third of the student population, part-time students in 2007/08 received a total of just £40.2 million in grants towards tuition fees and maintenance. Full-time students received £936.9 million.<sup>148</sup> Moreover, in 2007 the government withdrew funding altogether for mature students studying for equivalent or lesser qualifications than the ones they already held. While it may be necessary to discourage the few people who would be quite happy to settle down into a life of perpetual studenthood, the move has made it difficult for unemployed graduates to gain vocational qualifications to improve their chances of finding a job, or for people to change direction as the economy changes. It has also added to the problem of high drop-out rates among part-time students. In 2004–05 almost one quarter (23%) of part-time students left university after their first year.<sup>149</sup>

This needs to be put right. At present, part-time students cannot receive any funding if their course takes up less than 50% of the weekly hours of an equivalent full-time course. This should be reduced to 30%. Under current rules part-time students are denied any contribution to fees if their household income is above £26,505 a year. This should be raised to £50,000. As things stand, these rules exclude 90% of part-time students from receiving any funding. Reforming them would double the proportion of part-time students who receive help. The £33 million cost could be found by cutting the government's University Challenge programme. Such measures would help part-time students considerably in the short-term. But in the long term the government should aim to offer equal funding to full and part-time students. Anything less simply isn't fair.<sup>150</sup>

148 *Educating Rita*, Policy Exchange 2009

149 *National Audit Office Report July 2007, Staying the course: the retention of students in higher education*

150 See Policy Exchange *Educating Rita? A model to address inadequate state support for part-time student*.

## Nothing to sort out the good from the bad

The structure of higher education in Britain perpetuates under-performance. There is little to ensure that the £8 billion of funding distributed by the Higher Education Funding Council (HEFC) supports strong institutions at the expense of the weak. Student numbers are fixed from the centre, which can hinder good ones from expanding. The recession of 2008 and consequent decline in job opportunities led to an increase in the number of applications for undergraduate and graduate courses. Yet universities were forbidden from capitalising on this: in January 2009, Universities Secretary John Denham wrote to universities telling them that they would be heavily penalised for expanding their courses.

There exists a presumption that weak universities should not be allowed to fail. But why shouldn't they? A proper market mechanism would allow good institutions to grow at the expense of bad ones, ensuring a gradual process of improvement. Moreover, there is significant room for rationalisation in the higher education sector. London has 42 universities and higher education colleges, all competing for the same students.

The “no-fail” culture encourages financial irresponsibility and leads to public money being diverted towards supporting failure. If there is an economic or social reason why a failing university must be supported – if, for example, it is the only such institution in a large city – private capital could at least be considered. Private companies, however, are forbidden from receiving money from the Higher Education Funding Council for England. There is no need for the Government to guard so jealously a state monopoly when, in some cases, the common-sense option would be to call in outside help.<sup>151</sup>

### Action points

- We need to set universities free, and create a proper market in higher education. This will mean greater reliance on fee income. But a market also means ending the no-fail culture in the higher education sector.
- Just putting up fees won't be enough. If we want students to pay more they need access to dependable information with which to make choices about where to study. Universities must be made to publish their data on job prospects, salary levels, contact hours and class sizes. This will enable students to make rational decisions about the costs and benefits of taking different courses.

151 Fazackerley A and Chant, J, *Sink or Swim? Facing up to Failing Universities*, Policy Exchange 2009

- We need to account for high drop-out rates in some institutions and make sure universities have incentives to deal with the problem.
- Attempts to widen access to university need to focus on eliminating failures in early years education, and making sure that state schools offer the qualifications that universities require.
- We should encourage part time students, and pay for this “second chance” by cutting back programmes which attempt to use universities as urban regeneration tools.

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## 9

# Health

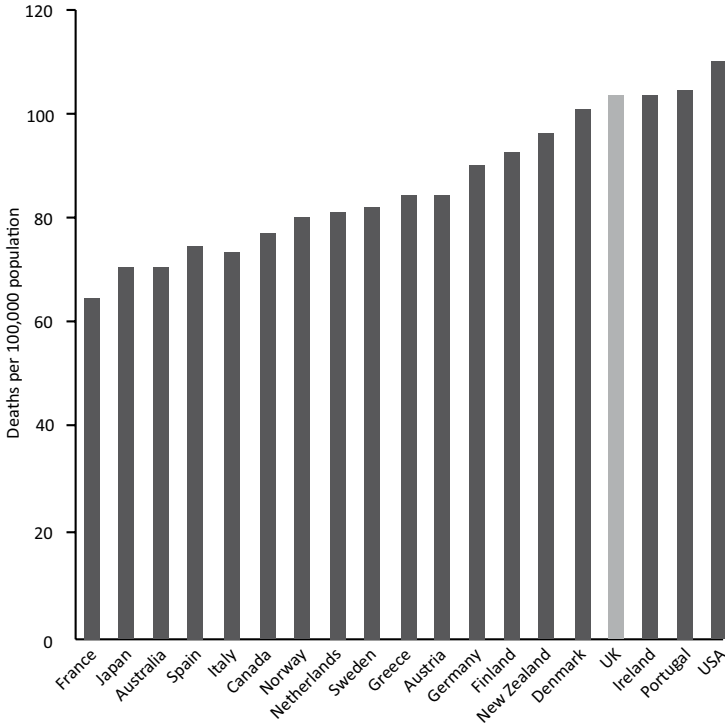
### Better, but still not enough

“The simple choice that people have in this next 24 hours is this,” Tony Blair declared on the eve of the 1997 general election. “It is 24 hours to save the NHS.” Yet two years later he admitted that saving the NHS was uphill work. “I bear the scars on my back,” he said, of attempting to reform the system.

A decade on, were he to decide to have those scars treated, he should notice at least some improvements as a result of his reforms. Waiting lists have fallen; but so too has productivity. Patients are more likely to survive cancer or heart disease than they were in 1997. Yet judging by international comparisons, the NHS hasn’t achieved as much as it should. Many indicators still show the NHS lagging behind the health systems of other countries. As is shown in the graph below, even two years after the NHS funding taps were turned on, the UK was lagging well behind our European neighbours in terms of overall performance.

Cancer and cardiovascular disease account for approximately 60% of all mortality in England and Wales. The mortality rate from cardiovascular disease fell by 24.2% in Britain between 1997 and 2004. Yet in Australia over the same period it fell by 26.5%. Although the mortality rate from cancer fell in Britain by 7.4% over the same period, it fell by 10.1% in Germany and by 8.4% in Australia. Consequently Britain has higher overall mortality rates than many other developed nations.

**Figure 12: Mortality amenable to healthcare 2002–03<sup>152</sup>**



## Health inequalities persist

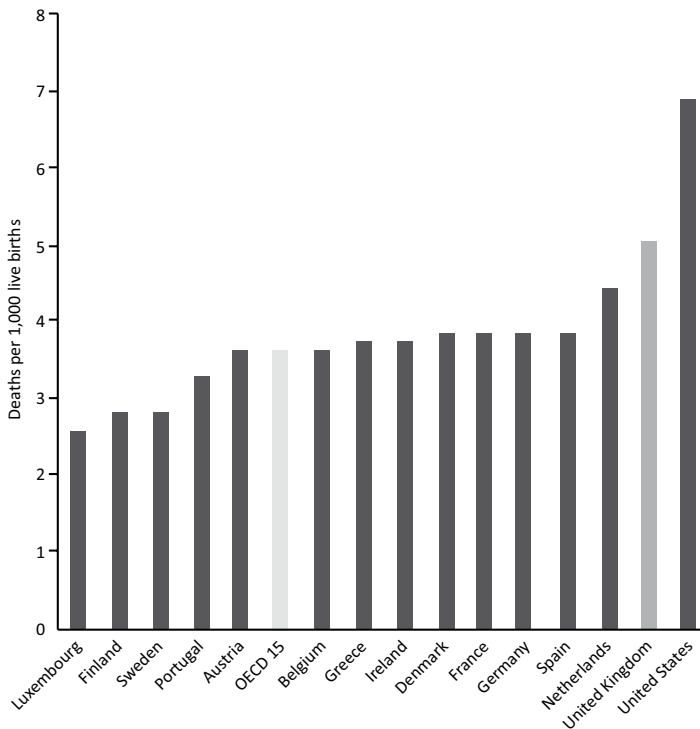
Improving the health of the population is, of course, a priority for all governments. No one can dispute that there have been *real terms* improvements in the health of the nation in the course of the last decade: life expectancy has increased; infant mortality has fallen.<sup>153</sup> But in a state-funded universal healthcare system, *relative* outcomes for different sections of society are also important. Health inequalities matter because, not only do they persist throughout life, they cross generations. Addressing the relative difference in health between social groups and areas of deprivation should be as much a focus for the Government as improving the overall health of the population.

<sup>152</sup> Nolte, E and McKee, C, Measuring the Health of Nations: Updating an Earlier Analysis, *Health Affairs* January / February 2008

<sup>153</sup> *Tackling Health Inequalities: 10 Years On – A review of developments in tackling health inequalities in England over the last 10 years*, Department of Health, May 2009

Infant mortality is a good indicator of the health of a population; it is sensitive to a wide range of factors such as economic development, social well-being, and the quality of the environment.<sup>154</sup> With increasing prosperity and improvements in general living conditions, there has been a downward trend in infant mortality in England and Wales since the 1970s, from 17.7 per 1,000 births in 1970 to 4.8 per 1,000 in 2007.<sup>155</sup> <sup>156</sup> This is good progress, but we have the highest infant mortality rate in Western Europe and lag well behind the OECD 15 average for this broad measure of population-level health. Among the OECD countries, only the US, where 15% of the population is without health insurance, has a higher rate of infant mortality.

**Figure 13: Infant mortality, OECD 15 comparison, 2006<sup>157</sup>**



<sup>154</sup> Reidpath, D D and Allotey P, Infant mortality rate as an indicator of population health, *Journal of Epidemiology and Community Health*, 2003; 57: 344–346

<sup>155</sup> 'Geographical trends in infant mortality: England and Wales, 1970–2006', *Health Statistics Quarterly* 40, Winter 2008, ONS

<sup>156</sup> 'Births, perinatal and infant mortality statistics, England and Wales and Government Office Regions and Strategic Health Authorities in England, 2007' *Health Statistics Quarterly*, ONS

<sup>157</sup> OECD Health Data 2008

# Throwing money at the problem

Whatever the NHS' faults, no one can reasonably argue any longer that they are caused by lack of cash. In 2000, Tony Blair announced that the Government wished to increase British spending on healthcare to the European average of 9% of GDP. This has nearly been achieved. Between 2002 and 2007 spending on the NHS rose in real terms by 7.4% per year. In 2008–09 per capita spending in Britain reached 8.4% of GDP, not far short of the OECD average of 8.9%.

Although this is still less than France (11%) and Germany (10.4%), and is only half what Americans spend on their health, it is more than Japan (8.1%) and is about the same as Italy (8.7%) and Spain (8.5%).<sup>158</sup> Britain is no longer a country which stands out for its low spending on healthcare.

£ billion (at 2007/08 prices)											
	1999–00	2000–01	2001–02	2002–03	2003–04	2004–05	2005–06	2006–07	2007–08	2008–09	2009–10
<b>Health</b>	52	56	64	67	73	77	82	85	91	94	101
<b>NHS</b>	51	55	63	65	71	74	80	83	89	92	99
<b>(England)</b>											101

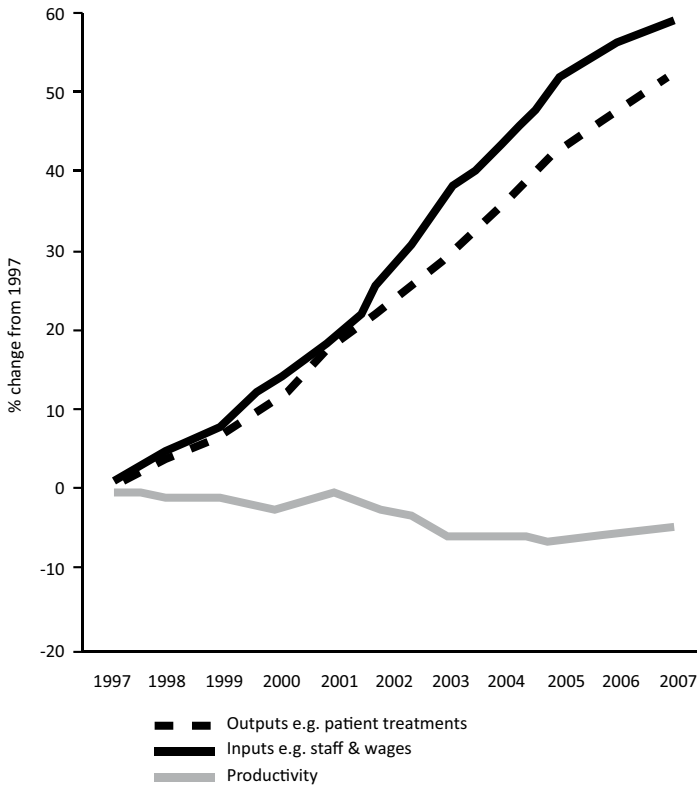
Source: Featherston, H, and Evans, N *Controlling Public Spending: The NHS in a period of tight funding*, Policy Exchange 2010.

But when the Prime Minister made his promise, he didn't give a clear idea of what he wanted to achieve with the money: spending was deemed to be a good thing for its own sake. As should have been obvious, there was no guarantee that the extra money would not simply be wasted.

# Falling productivity

Office for National Statistics (ONS) figures show that between 1997–2007 productivity in the NHS fell by an average of 0.4% per year, while in the public sector as a whole it fell by 0.3% per year.<sup>159</sup> Pouring money into the NHS has not delivered value for money.

<sup>158</sup> OECD health data 2009  
<sup>159</sup> *Total Public Service Output and Productivity*, June 2009, ONS

**Figure 14: Components of healthcare productivity<sup>160</sup>**

Much of the money was hoovered up in pay rises for NHS staff. The new consultants' contract, for example, introduced in 2004, added £250 million to the NHS wage bill. The new contract for other hospital staff – Agenda for Change – has been the most costly overall. The annual cost of employing staff on Agenda for Change in the NHS rose by £7.4 billion (36%), from £20.8 billion in 2003–04 to £28.2 billion in 2007–08. Of this £7.4 billion increase, £4.81 billion (65%) was spent on higher levels of pay, through pay awards and pay progression as people moved through the pay system.<sup>161</sup>

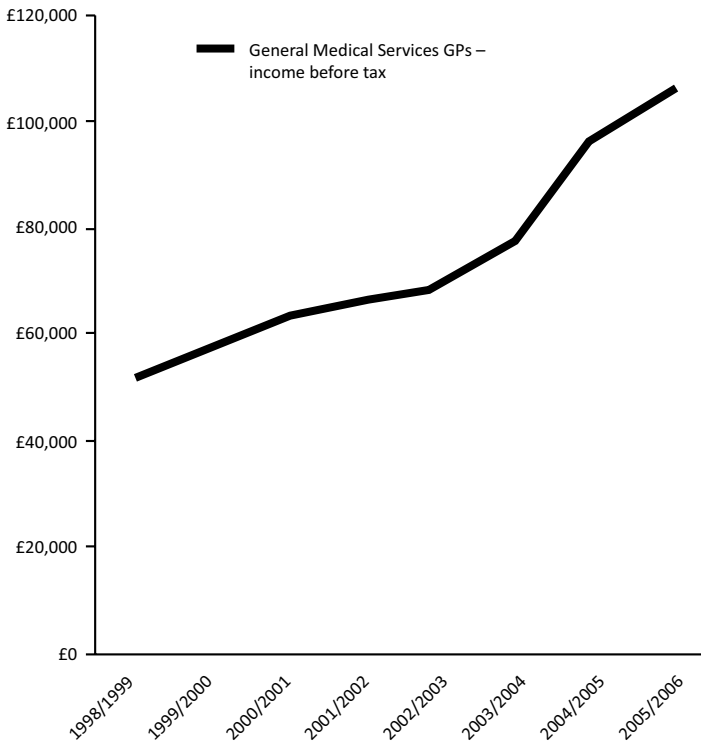
It was not as though the wage rises were required to fill a shortfall of staff. The NHS Plan of 2000 did seek to increase nursing staff by 20,000, but those

<sup>160</sup> Total Public Service Output and Productivity, June 2009, ONS

<sup>161</sup> *NHS Pay Modernisation in England: Agenda for Change*, NAO January 2009

vacancies had already been filled by 2002, two years before the wages rises brought about by Agenda for Change. The new contracts for GPs were even more wasteful. A poorly negotiated new contract with GPs in 2004 led to the Government spending £300 million more a year than it had intended. The pay of the average GP rose from £61,000 to £94,000 as doctors easily outperformed the easy targets which they were set.

**Figure 15: GPs' earnings and expenses**<sup>162</sup>



A lot of money, too, has disappeared into the black hole that is *Connecting for Health*, the NHS's nationwide computer system designed to make patients' medical records available to NHS staff across the country, and to link 30,000 GPs with 300 hospitals. The development of the system has been dogged by delays and cost over-runs, resulting in the withdrawal of two of the firms employed on the project, Fujitsu and Accenture. The latest progress report issued by the

<sup>162</sup> NHS information centre, *GP Earnings and Expenses Enquiry*

House of Commons Public Accounts Committee in January 2009 estimated that the system may finally be up and running in 2014–15, four years late. The cost is estimated to be £12.7 billion.

In the year 2005–06 the NHS managed to spend £25 million ferrying patients around in taxis. One hospital spent £600,000 on artworks. Millions were spent paying unnecessarily high prices for drugs: in one case the NHS agreed to pay pharmacies £2.12 per dose of a medicine which the pharmacies had managed to source for 45 pence.

Thanks to the need to meet government targets, hospitals were forced to hire temporary nurses from private agencies charging up to £128 an hour. The expenditure on agency staff was so absurd that the Government set up a body called NHS Professionals to provide hospitals with a reliable supply of nursing staff, who would be paid standard nursing rates. Yet NHS Professionals itself proceeded to pay extravagant rates to hire temporary staff. Rather than appoint a permanent chief executive, it hired one from an outsourcing company – at a cost of £1,700 a day.

## Reforming pay

Inefficiencies are of course undesirable in the NHS at any time, but at a period of severe budgetary restraint it is essential that action be taken to combat inbuilt inflation in NHS costs. Many NHS contracts entitle staff to be lifted automatically to a higher pay grade each year. These annual increments equate to a salary increase of 2.9% for a newly qualified nurse, or 4.7% for an NHS manager reaching the top of his or her salary scale.<sup>163</sup> The total cost of this incremental movement has been estimated by the Department of Health to be 1% of the NHS paybill – some £420 million. NHS staff would not have to show any improvement whatsoever in productivity in order to qualify for their rises: it is a reward simply for staying in the job.

This should not be tolerated. Pay rises must be linked to improvements in performance. Similarly, seniority payments for GPs must end. At present, GPs approaching retirement qualify for up to £13,500 in seniority payments – a bribe, in effect, to persuade them to stay in their jobs.

While GPs' pay rises have often captured the headlines, pay rises for some NHS managers have spun even further out of control. In 2009, in the midst of recession and while public finances were falling deeper into the red, NHS managers enjoyed some startling rises. For example, the Director of Public

163 Authors' calculations based on NHS Employers Pay Circular (Agenda for Change) 1/2009, February 2009

Health at Wandsworth Primary Care Trust, received nearly a 100% increase to £370,550. In all, 350 NHS executives were found to be earning in excess of £150,000 a year.<sup>164</sup> These salary payments must be brought under control and performance-related pay introduced instead.

Currently, bonus payments for very senior managers in the NHS are restricted to 7% of pay,<sup>165</sup> whereas smaller and less complex private sector organisations are offering executive bonuses of between 50% and 100% of salary. If we can tie pay strongly to performance there is no need for these arbitrary caps. But we must ensure that bonuses really do reflect performance, and are not just part of the salary.

The NHS has built up huge inefficiencies over the years. Vast sums could be saved through simple measures to make better use of existing resources. If good practice were spread more widely, such that all hospitals, clinics and other NHS bodies adopted the practices used by the top 25% of equivalent organisations, the NHS could save £3 billion a year. A further £2.2 billion could be saved, according to the NHS Institute of Innovation and Improvement, if management techniques were applied to making more effective use of wards and operating theatres.<sup>166</sup> And improvements in community services – district nursing and such like – could yield another £2.1 billion.

## Political targets aren't the answer

As in other areas, healthcare over the past decade has been afflicted by an excess of targets. One of the Government's main aims has been to reduce waiting times for operations. In many cases this has been achieved, but many targets have become counter-productive. The Government has set an 18-week limit between being referred by your GP and beginning your treatment. But there has been no attempt to prioritise. An operation to remove a bunion is treated just the same as a cancer operation – with the result that patients with serious illnesses are waiting longer than they need do.

The unintended consequences of setting targets ought to be obvious to the politicians who set them. But very often they are not. Hospitals have, unsurprisingly, twisted priorities in order to meet targets. When is a wait in casualty not a wait? When the patient has been briefly assessed by a nurse before being wheeled along to a “clinical assessment unit” to spend another hour or two

164 *Pulse Today*, 4th December 2009

165 *Pay Framework for Very Senior Managers in Strategic and Special Health Authorities, Primary Care Trusts and Ambulance Trusts*, DoH April 2009.

166 *Health in a Cold Climate*, Nuffield Trust June 2009

before being seen properly. Similarly, as the British Medical Association News reported in 2002, ambulances were being held outside A&E departments so that patients might then spend less time waiting actually inside the building: the time spent waiting in ambulance was not being measured.

The obsession with targets has led to some questionable statistics. A report by the Audit Commission in 2002 uncovered reporting errors in almost half the 41 healthcare providers which it studied.<sup>167</sup> Similarly, the Commission for Health Improvement discovered unexplained corrections in data provided for response-times to Category A calls (i.e. the most serious) among one third of ambulance providers.

Target-setters ought to be able to guard against the possibility that medical staff will achieve temporary improvements in performance while assessment is being undertaken, followed by a return to normal service afterwards. But this possibility has been overlooked. Astonishingly, hospital managers were told in advance that their performance – and as a consequence their funding for the following year – would be determined by A&E data from a single week in 2003. The predictable result was that hospitals rushed in extra staff and cancelled operations in order to ease the passage of new admissions through A&E departments for that week alone. Documents leaked to *The Observer* showed a miraculous improvement in the number of A&E arrivals being discharged, transferred or admitted to hospital within four hours. At the West Hertfordshire NHS Trust, for example, the proportion rose from 80.5% one week to 95.7% the next and then back down to 83% the following week.

## Market reforms which didn't go far enough

The dismantling of the NHS internal market was one of the first reforms introduced by the Government, after it came into office in 1997. But Tony Blair soon came to accept that the service would only thrive with the help of market mechanisms to regulate costs. His great blueprint for change in the NHS came with the NHS Plan in 2000. A central theme of this plan was the need to expand the internal market within the NHS and to improve efficiency by bringing in outside providers. This has happened to some extent. In 1997–98 the NHS spent £1.1 billion on healthcare from non-NHS providers. In 2007–08 the figure had climbed to £6.0 billion. But this is still a small fraction of the total NHS budget – about one in every £20 the NHS spends. The service is still a long way from realising the potential of outside providers for reducing cost

167 *Waiting List Accuracy*, Audit Commission 2002

and promoting innovation. And the current Secretary of State for Health, Andy Burnham, has signalled his intent to stop any plurality of provision with his statement that the NHS will be the “preferred provider of choice”.

The NHS Plan led to the creation of 303 primary care trusts, which oversaw GP and dental surgeries, walk-in centres and the new NHS Direct call centre service. The trusts controlled 80% of the NHS budget and purchased services from hospital trusts and outside providers such as independent sector treatment centres (ISTCs). In some cases costs have fallen as a result of the reforms. Faced with outside competition, NHS hospitals have been forced to raise their game. In 2007, for example, Wirral Primary Care Trust put its genito-urinary services out to tender. The local hospital won the contract to continue performing the treatments, but suddenly decided that it could offer the service for a little more than half what it was charging before – £735,000 rather than £1.4 million a year.<sup>168</sup>

The Government has failed, however, to get the internal market to function properly. Under the system of payment by results, hospitals derive most of their income by generating activity. This has had the unfortunate effect of creating needless hospital admissions as hospitals suck in patients in order to boost their balance sheets. Between 2003–04 and 2007–08 the number of referrals to hospitals by GPs rose by 21%, but the number of referrals within hospitals rose further, by 3%. In one NHS trust referrals rose 600%.<sup>169</sup> Whereas with a system of GP fundholding – where clinical decisions and patient funds are in the hands of doctors – hospital admissions decreased by 3.3% and hospital efficiency increased by 1.6%.

ISTCs were conceived as a means of dealing with large numbers of routine operations such as hernias, thus freeing acute capacity in hospitals for more difficult operations. These should undoubtedly be cheaper. By specialising in large numbers of straightforward operations, they ought to be able to exploit the efficiency gains of a production line. But various constraints placed on the centres – like not being allowed to employ NHS staff – undermined them. Many contracts with ISTCs were written on a “take or pay” basis – which means that the private operators were promised a minimum income, whether any patients chose to use the service or not. As the House of Commons Health Committee found in 2006, some ISTCs were performing fewer than half the surgical procedures for which they were being paid.

168 *Is the Treatment Working?*, Audit Commission and Healthcare Commission 2008

169 *GPNews*, 20th February 2009

The under-use of ISTCs is partly down to the failure to convince GPs to use them. Many GPs are sceptical about ISTCs because they are private, which is odd given that they themselves are private sector providers and have been since the NHS was formed in 1948. GPs have no financial incentive to push their patients in the direction of ISTCs: they are obliged to charge the same, fixed price as NHS hospitals. This needs rectifying. The NHS will only encourage efficiency via a market system which is based on genuine costs.

## Encouraging primary care

Running hospitals is by far the most expensive function of the NHS, accounting for 76.3% of its expenditure. A further 12.4% is spent on drugs. Primary care – that is to say GPs' surgeries and clinics – is the relatively cheap part of the service. Keeping patients out of hospital, where possible, is desirable not only from the point of view of the patient but also from an economic perspective – it is far cheaper: 76% of all activity takes place in primary care, but for only 11% of total NHS costs. A wealth of evidence suggests that health systems that are oriented towards primary health care are more likely to deliver better health outcomes and greater public satisfaction at lower cost.

And yet primary care remains unsatisfactory. Patients have little choice, enterprising GPs are prevented from buying underperforming practices, and there are too few GPs in the areas of highest need. In fact there are 20% more GPs per head in the richest fifth areas than in the poorest fifth. The harder it is for people to see a GP, the greater the risk that their health problem will escalate to a point where far more expensive hospital intervention becomes necessary. This poor access to GP services for those that need it most is due to the ineffective system of resource allocation in the NHS – some PCTs receive more funding than they should while others do not receive enough. For example, Department of Health tables show that Richmond & Twickenham PCT is over funded by 23.8% according to the needs of its population, yet it is one of the fifth least deprived PCTs; while Leicester City, one of the fifth most deprived PCTs receives 7.5% too little funding.<sup>170</sup>

Areas of highest need have too few GPs. The Department of Health has a postcode-based formula for calculating the financial need of primary health-care services, based on the age and socioeconomic profile of each area. This formula, however, is not generally used to determine funding levels for GPs surgeries; in practice, money is delivered to GPs via primary care trusts, who

use a different formula. As a result, there are parts of the country which have become starved of primary care services. Worse, they tend to be areas of highest need. The funding of GPs is further distorted by fixed payments to practices such as the Minimum Practice Income Guarantee and seniority payments.

We need a funding system which is better able to target money where it is needed most. Surgeries should be opened to competition. Patients should be allowed to choose their GP practice, and the money should follow them. The amount of money commanded by a patient should be determined by their age, postcode and a “patient premium” based on their known state of health. Such a system would provide an incentive for GPs to set up new practices where they are needed most, in poorer areas.

PCTs most underfunded (2009–10)	%	PCT Deprivation rank (out of 152)	PCTs most overfunded (2009–10)	%	PCT Deprivation rank (out of 152)
Bassetlaw PCT	-10.6%	72nd	Richmond & Twickenham PCT	23.8%	150th
Barnsley PCT	-9.3%	34th	Westminster PCT	22.7%	46th
South Staffordshire PCT	-7.9%	117th	Kensington & Chelsea PCT	22.1	70th
Lincolnshire Teaching PCT	-7.5%	103rd	Hammersmith & Fulham PCT	16.4%	33rd
Leicester City PCT	-7.5%	21st	Lambeth PCT	14.9%	9th

Sources: Department for Communities and Local Government. Indices of Deprivation 2007. Department of Health. 2009–10 and 2010–11 PCT recurrent revenue allocations exposition book.

## Encouraging better health

However good a health service, it is never going to make up for a poor life-styles. The greatest determinant of an individual’s health will always be his or her habits: most particularly smoking, drinking, eating and levels of exercise. This issue presents an awkward conundrum for government: to what extent should policy try to influence how people live?

There are plenty of examples of pointless nannyism which give health interventions a bad name: primary school science lessons which turn out to

be the Government's "five a day" agenda in disguise; the bill presented by the Liberal Democrat MP Greg Mulholland to limit the size of glasses used in pubs and clubs to no more than 125 millilitres; perennial proposals to place taxes and health warnings on junk food, and so on.

Yet poor lifestyles are a real killer, and the strongest opponents of the nanny state have a tendency to expect the NHS to sort out their problems when they fall victim to their unhealthy habits. If the state is to pick up the bill for healthcare, does it not also have the right to tax unhealthy habits and to incentivise good ones?

Taxes on alcohol and tobacco are generally accepted by the public for this reason. Yet the tax system is a blunt instrument in this respect, and needs to be made sharper. High though tobacco taxes may seem, an analysis of the costs of smoking suggests that a packet of 20 cigarettes is nevertheless still significantly under-taxed.<sup>171</sup> Such analysis provides ample justification for raising taxes on cigarettes by, say, 40 pence a packet – about 5% – which has been independently assessed as being one of the most cost effective public health interventions available.

Alcohol taxes present a different challenge. There is medical evidence that moderate consumption is beneficial to health in that it offers some protection against heart disease. The consequences of excessive consumption, on the other hand, place a huge burden on the NHS, as well as on policing and social services. Excessive drinking has risen in Britain at the same time as it has been falling in many other countries. Between 1985 and 2005 alcohol consumption in Britain rose by 22%; in Italy it fell by 37%, in France by 27% and in Germany by 29%. The standard mortality measure for liver disease and cirrhosis in Britain over the same period increased by 136%.

Alcohol taxes are at present badly attuned to cut the healthcare and social costs of alcohol. Duties for each class of drink are different, with those for wine – which accounts for 33% of consumption – being a flat-rate, thus ignoring the fact that some brands have a far higher alcohol content than others. This should be changed. Taxes should be related to the alcohol units, so that producers and drinkers are incentivised to make and choose weaker beers and wines.

To tax fatty foods, on the other hand, would be over-bearing. There is little question that obesity is a grave health hazard which places huge burdens on the NHS: an obese woman of 35, for example, is four times more likely to suffer from type 2 diabetes than a woman of healthy weight. But it has to be

171 Forthcoming Policy Exchange report on smoking

recognised that the poor tend to be disproportionate consumers of foods with high fat content. “Obesity taxes” would place a large burden on already over-stretched budgets. Tackling obesity is a difficult problem. There is no doubt that early intervention by GPs and health clinics can help; but the Government needs to invest in finding out what really works, if we are to overcome this epidemic of the 21st century.

## Towards the longer term

The NHS should and will remain. But the state will not be the sole provider of healthcare. The NHS will be a “brand” that provides high quality healthcare free of charge to all those that need it. There will be fewer hospitals, which will be a good thing since many more healthcare services will be delivered away from specialised high-cost buildings. The ownership of hospitals and primary care organisations will be as diverse as the conditions they treat: not-for profit organisations; foundation trusts; employee owned mutual organisations; commercial providers, etc. But the principle of the NHS will remain – that when it comes to healthcare no one should be left behind.

### Action points

- We should link salaries to performance not seniority, and restore control over pay.
- We should strip back the excessive target-setting system.
- We should make the internal market work properly, based on real costs, and so give clinicians incentives to save money.
- We should give people a choice of GP, and thereby create pressures for improvement in primary care.
- We should encourage public health not through fiddly initiatives but by rationalising the alcohol tax system and increasing tobacco taxes.

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# 10

## Welfare

### Confusion in social security

Britain's social security system is a mess. It has been expanded a number of times to raise the incomes of the poor, only to be cut back in order to protect the public finances. More often than not there have been calls for “crackdowns” on the workshy and arguments that incentives to work are too weak. All these objectives, in their own ways, have merit. Most people want to keep the poorest out of poverty, to see people who can work in a job, and to keep taxation low. Unfortunately, the successive waves of reform over the past ten years or so have not thought about welfare with all these three competing aims in mind.

It is for this reason that Britain continues to have a social security system that is a mishmash of philosophies taken from Elizabeth I (the Poor Laws), William Beveridge (social insurance) and Bill Clinton (welfare-to-work). As each new idea strikes, great strides are hoped for. But, more often than not, the final policy stumbles as its effects are curtailed by the countervailing forces of past reforms.

### A complex system

As a result we have a complicated and expensive system, with many overlapping and interacting benefits. Receipt of one benefit often serves as a “passport” to the receipt of other benefits: for example, being eligible for income support because you are a single parent might mean you are eligible for housing benefit too. Some of the different benefits interact – for example, how much housing benefit you receive depends on how much you receive in other benefits. Dif-

ferent benefits are withdrawn at different rates if a claimant starts working or increases their hours of work. On the other hand working tax credits kick in if you do work a certain number of hours. And last but not least, benefits are reduced if you are in a couple or have savings.

All this makes for a fantastically complex system. So complex in fact that the Government has had to install special computers in job centres to help people work out whether they would be better off working. If you need a computer to work this out, you know there is something wrong with the system.

### Some of the main benefits in the UK, 2009

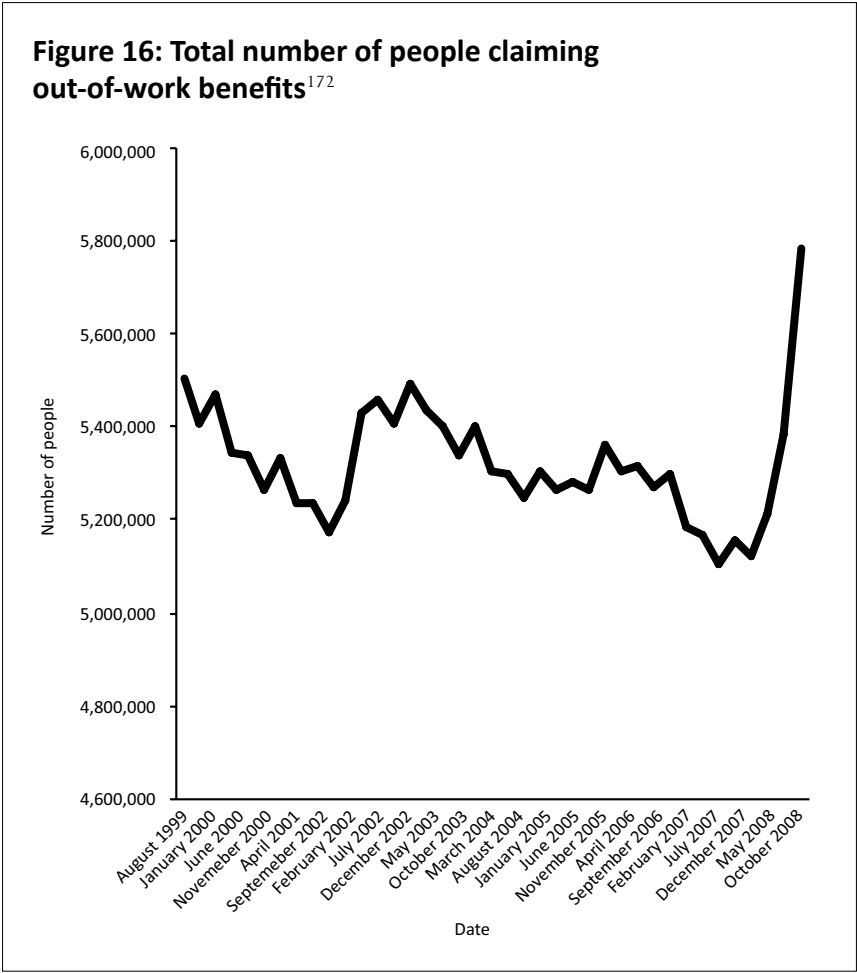
Type of Benefit	Number of claims (million)
State Pensions	12.3
Pension Credit	2.7
Disability Living Allowance	3.1
Carer's Allowance	0.5
Attendance Allowance	1.6
Jobseeker's Allowance	1.4
Incapacity Benefit + ESA	2.6
Income Support	2.0
Council Tax Benefit	5.5
Housing Benefit	4.5
Child Benefit	7.5
Tax Credit	6.1

### How the system has failed

Britain's hotchpotch social security system has lots of holes in it. It lets in too many claimants, leaks money and induces undesirable behaviour. Figure 16 shows how, regardless of the efforts of all those governments, the welfare population did not change by very much even during the good years of growth in the 2000s.

In some areas of Britain the level of welfare claims is so high that is quite common to be on benefits. In these places the norm of working is much weaker than it is elsewhere. A report in 2000 by the Joseph Rowntree

Foundation, *Communities in the Balance: The Reality of Social Exclusion on Housing Estates*, recounted the views of people on housing estates most likely to be excluded from society. One 21-year-old male said that “[w]e’ve been on the dole so long it’s hard to get back into the swing of things, so you end up sleeping all day.” Below is a table, showing a list of the places with the most welfare claimants among their population.



172 This data includes people claiming Carer’s Allowance, Disability Living Allowance, Incapacity Benefit, Employment and Support Allowance, Income Support, Jobseeker’s Allowance, Severe Disablement Allowance, and Widow’s Benefit. See [www.nomisweb.co.uk](http://www.nomisweb.co.uk) for details.

**Ten areas in the United Kingdom most affected by welfare claims (all types of benefit)<sup>173</sup>**

	Number of claimants	Percentage of local working age population
<b>Merthyr Tydfil</b>	10,290	30.4
<b>Blaenau Gwent</b>	12,630	30.3
<b>Knowsley</b>	26,480	28.3
<b>Liverpool</b>	78,770	27.6
<b>Neath Port Talbot</b>	22,260	27.0
<b>Rhondda Cynon Taff</b>	37,030	25.8
<b>Caerphilly</b>	27,070	25.8
<b>Glasgow City</b>	100,190	25.6
<b>Middlesbrough</b>	22,030	25.4
<b>Blackpool</b>	21,340	25.3
<b>Hartlepool</b>	13,960	24.9

**The human cost of worklessness**

An especially tragic aspect of unemployment is its affect on suicide rates, which are particularly high among the jobless, especially jobless men. A 20-year Edinburgh-based study found that 75% of all suicides involved people who had been out of work for six months or more, meaning the suicide rate was ten times greater among the unemployed than employed.

Unemployment also significantly affects the health of the people involved. Those of working age not in work or training are far more likely to suffer ill health than those in employment, even after the figures have been age-adjusted.

Children in jobless households also suffer from relatively poor health. Those born to unemployed fathers have a lower birth weight than average, visit their GP more frequently and are admitted to hospital more often. There is also strong evidence that children in families where neither parent has worked for the previous six months have a higher prevalence of chronic health conditions and lower well-being. The incidence of psychological illness among children whose parents have never worked is nearly twice that of children with parents in low-skilled jobs and about five times higher than children with parents in professional occupations.

173 [www.nomisweb.co.uk](http://www.nomisweb.co.uk)

Being out of work for a long time is particularly damaging. Someone who has been claiming Incapacity Benefit for a few years is likely to have a weaker grasp of, say, the practices required in day-to-day work than a person who has only been receiving Jobseeker's Allowance for a few weeks.

## Principles for welfare reform

Roughly six million people are now dependent on out of work benefits for their living.<sup>174</sup> If Britain really is to get many of these people off benefits and into work, then the reforms of this decade must start from a coherent set of principles. What should those principles be?

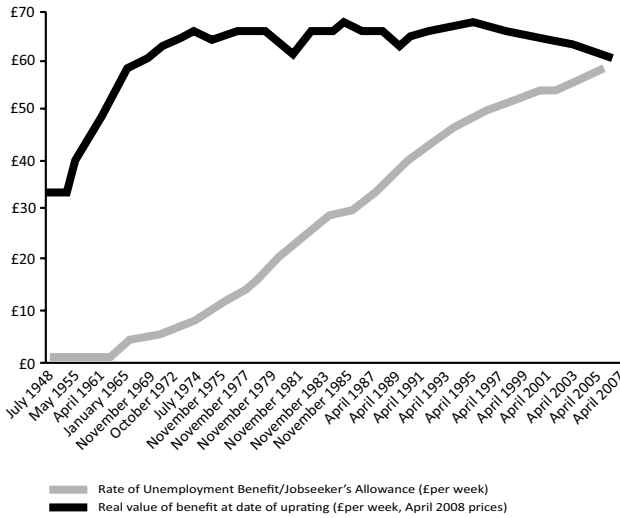
### Principle one: benefits are about avoiding hardship, not replacing work

First, that welfare in Britain should be about helping those in need to avoid absolute hardship, measured by a plurality of methods, and not about helping claimants to live at a standard of income that their counterparts in work enjoy. Some parts of Britain's benefit system have actually done this implicitly for many years. For example, the relative value of the main unemployment benefit to wages has consistently fallen over the past few decades, but relative to prices its value has stayed remarkably stable, as shown by Figure 17 and Figure 18.

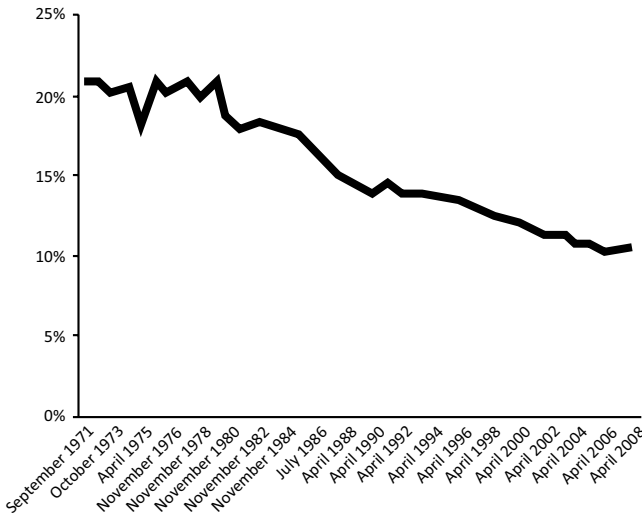
However, other schemes such as Housing Benefit work differently. This is because people who get Housing Benefit are allowed enough money to live in any area they wish. They are given amounts that are *relative* to the most expensive properties in a given area, thus raising the quality of their accommodation in terms of location way above what they would need to fulfil their basic needs. One local councillor in Westminster noted that the payments in inner London can match the highest salaries: "At present we have 26 families on £1,600-a-week rents, which you could only afford on a salary of £250,000. About 900 families have rents of £500, for which you would need a salary of £75,000." While receiving housing benefit of £83,000 a year is extreme, the system creates huge distortions. The table below shows how this plays out across the country.

174 This figure includes all benefits: [www.nomisweb.co.uk](http://www.nomisweb.co.uk)

**Figure 17: value of the main unemployment benefit relative to prices since 1948** <sup>175</sup>



**Figure 18: value of the main unemployment benefit as a percentage of average earnings since 1971** <sup>176</sup>



<sup>175</sup> *The Abstract of Statistics and Benefits, National Insurance Contributions, and Indices of Prices and Earnings: 2008 Edition*, DWP 2009, p.55

<sup>176</sup> *Ibid*

### Highest and lowest Housing Benefit levels in the United Kingdom, December 2009 (two-room rate)<sup>177</sup>

CENTRAL LONDON	£330.00
INNER NORTH LONDON	£240.00
INNER WEST LONDON	£236.50
INNER SOUTH WEST LONDON	£230.00
OUTER SOUTH WEST LONDON	£196.16
INNER EAST LONDON	£189.96
INNER SOUTH EAST LONDON	£188.46
NORTH WEST LONDON	£172.96
OUTER NORTH LONDON	£172.50
OUTER WEST LONDON	£167.31
ROTHERHAM	£81.54
BARNSLEY	£81.16
NORTH NOTTINGHAM	£80.00
BARROW-IN-FURNESS	£79.43
WEST CUMBRIA	£79.04
GRIMSBY	£77.54
HULL	£76.93
WEST PENNINE	£76.16
SCUNTHORPE	£70.39
BRIDLINGTON	£70.00

### Principle two: prevent people from drifting into dependency

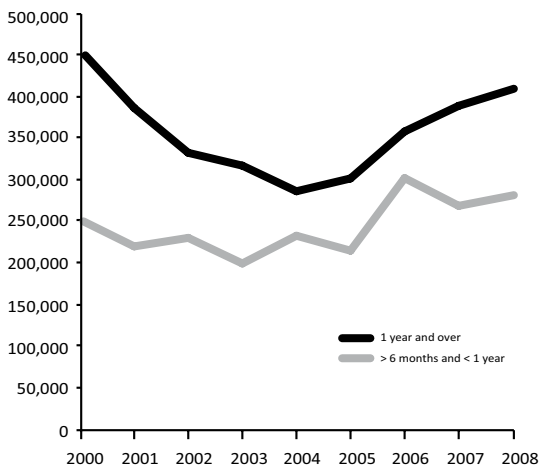
The second principle should be that the first contact with a new benefit claimant be approached with the fear of dependency in mind. There are many things that matter in the chance that someone has of getting a job, but the state has control over one thing in particular: when it gives the help which that person may need. Many claimants see their likelihood of finding work shrink as the months go by, so the best help should be available when the chance of getting back into employment is highest.

<sup>177</sup> Valuation Office Agency: [www.voa.gov.uk/publications/LocalRefRents/lrr-091231.htm](http://www.voa.gov.uk/publications/LocalRefRents/lrr-091231.htm)

At the moment Britain's welfare-to-work system waits for someone to get into a bad situation before helping them. Many claimants find work by themselves, but the ones who do not are much more likely to remain dependent on the state for many months. Around one third of Incapacity Benefit claimants have claimed Jobseeker's Allowance in the two years before the start of their claim. Even though many of them want a job, they only have about a 1.8% chance of doing so after having been on the benefit for a few years. The flow of Jobseeker's Allowance claimants is fed by the number of repeat claims: most of the time, around half of all "new" claims have been made by people who have claimed at least once in the previous two years.

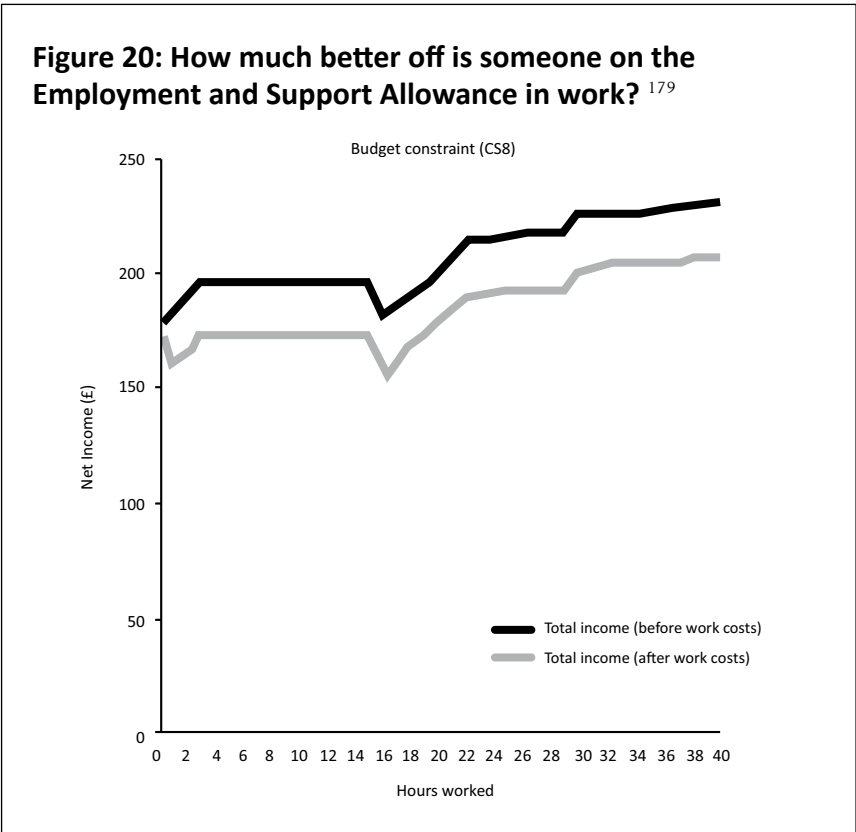
If the welfare-to-work system continues to do as it does now, which is to leave the opportunity for what might be very important help until someone has been out of work for many months, it will continue to allow the replenishment of the population of long-term, welfare dependent, claimants. In short, there is a period of a few months when the state can take most advantage of the reasonably good and briefly unemployed situation that someone is in. Only by doing so can it stop the growth in long-term dependency, a problem that has dwarfed issues around short-term unemployment for many years, as shown by Figure 19.

**Figure 19: long-term and short-term unemployment in the United Kingdom<sup>178</sup>**



Principle three: Make work pay – and simplify the system

The third principle should be that the state must always provide a clear and compelling financial reason for people on welfare to get work. At the moment most claimants are only richer by about £50 once they have worked for 40 hours a week, just £1.25 per hour worked. People on the Employment and Support Allowance, for whom a part-time job of only a few hours a week would be most suitable as they manage a health problem, often either *lose money* when they decide to work or make only a paltry gain from doing so, as shown by Figure 20 below.



On top of this, it is astonishingly difficult for claimants to work out how their income will change if they do get a job. At the moment, many claimants have to ask their adviser for help in finding out the answer. This means they are dependent in both financial and information terms – only the state gives you

179 Calculations using information from the Lisson Grove Benefits Programme

money and it will only tell you how much that will change if you make an appointment. Even for advisers it can be tough. Many claimants will be getting their benefits from different departments and levels of government. It is thus difficult for them to tell cautious claimants that “yes, work is better than welfare. Here’s why.”

Together, these principles will guide reform towards a very important position: one that allows the welfare system to help carers, the disabled and the unhealthy to manage their lives properly, but then for it to say three things to healthy but unemployed claimants: one, we do not want you to fall into serious hardship so will give you enough money to make sure that does not happen; two, we are happy to give you practical help if you need it because we think long-term unemployment is really bad for everyone involved; three, if you make the necessary efforts to get a job you will be financially better off. With this approach to reform, Britain might soon have a welfare system that is compassionate, helpful and expectant.

## Specific problems associated with particular benefits

### Incapacity Benefit and Employment Support Allowance

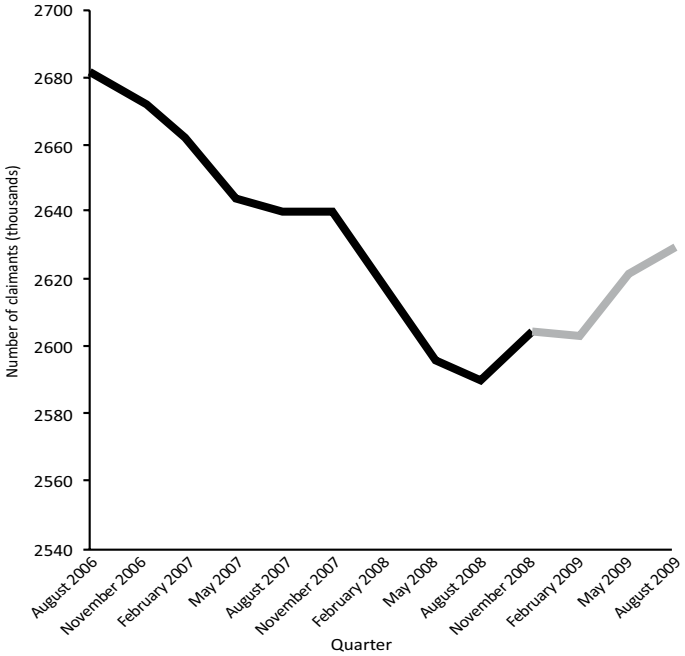
For many years the population of people on Incapacity Benefit was the clearest expression of confusion in Britain’s benefit system. On the one hand the benefit was meant to help sick people to manage their situation. But, on the other hand, it treated all claimants as incapable of any work so nothing was expected of them. This, plus the generosity of the benefit, attracted people away from Jobseeker’s Allowance.

Of all the people on the support at the last count in August 2008, i.e. before new claimants were pushed towards the Employment and Support Allowance, the majority had claimed for five years or more. In other words, once someone joined the benefit they were very unlikely to leave.

As a result, the Employment and Support Allowance splits people who qualify for it into two groups: those who are completely incapable of working because of their condition, and people who have a condition that means that they are only temporarily unfit for work, or could only manage small amounts of it. The claimants in the latter group receive a lower amount of benefit and get intermittent help to ease them through the process of moving into employment. Unfortunately the total number claiming one of these benefits is actually on the rise again.

Britain has a large group of people – over two and a half million – who are either not working because they are ill, or perhaps ill because they are not working. Getting them back into work, (as recent reforms have aimed to do), over even the next few years, will be a daunting task.

**Figure 21: number of people receiving Incapacity Benefit or the Employment and Support Allowance** <sup>180</sup>

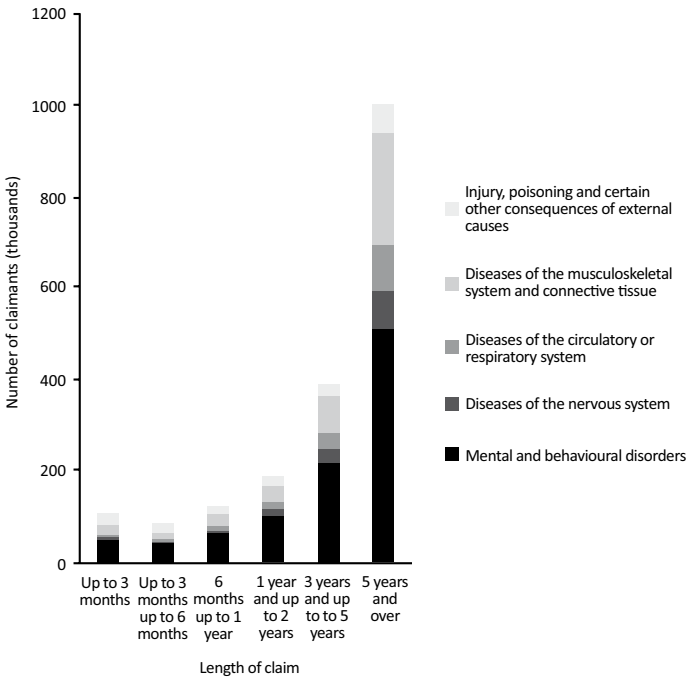


The majority of claims are for mental problems or musculoskeletal problems – often a bad back – ailments which are hard to diagnose. In dealing with the flow of people on to these health benefits it is important that all the causes of it are dealt with. First, there are clearly people who are ill, cannot work and need help. They are a significant number of the people claiming, and should receive generous support – in fact, conditions on the receipt of health benefits should make sure that as little money as possible is spent on people who could otherwise work so that we can direct money to those who actually need it.

180 'DWP Monthly Statistical Summary,' DWP 16th December 2009

Second, for many years people who had health problems that did not prevent them from doing any work were left to their own devices. This was very bad for everyone involved, so as much attention as possible should be given to these people so that that they do not lose sight of work. Third, many people have ended-up on Incapacity Benefit or the Employment and Support Allowance because they have simply not been able to find work in their area. This is a problem of skills and location, i.e. they do not have the skills to be able to do what local employers want. Fortunately, we can start to solve the location problem by giving claimants in local authority housing the “Right to Move”, i.e. to have their local authority sell their house and buy another one in a more economically vibrant area of the country. This would solve the problem of people joining benefits, seeing their job prospects decline with time and then being trapped in housing that gives them a roof but no freedom to move to where the work is.

**Figure 22: Incapacity Benefit claims by length of claim and ailment, August 2008<sup>181</sup>**



181 DWP statistics

Finally, by improving the quality of help available when someone makes a claim for Jobseeker's Allowance it will become less necessary to only deal with the health problems of a welfare claimant once they reach the Employment and Support Allowance. Making this change should mean many people who would have ended-up on the benefit would manage their health difficulties earlier on and thus remain more likely to be in work. This, in turn, will mean that the assessment for the Employment and Support Allowance can be made more difficult to pass so that only those people who need extra money actually get it.

### **The right to move**

Nearly one in five households in the UK lives in social housing – roughly twice the European average. Around two thirds of these households depend on housing benefit to pay the rent.

Controlling for other factors, people in social housing are only half as likely to be in work as those living in other forms of housing. Employment rates among social housing tenants fell from 52% to 22% between 1978 and 2006. One reason for this is that people in social housing cannot move to find work. Unless they can find someone to swap with (unlikely) they will lose their house if they move.

Rowntree Housing Trust in York created a scheme where social housing tenants who have a good record are given the right to require their landlord to sell the house that they are currently living in on the open market. The tenant then chooses another house on the open market, up to the value of the one that had been sold. Their landlord then purchases that property, renting it to tenant who had chosen it under the same terms as before.

Rolling out this "right to move" nationally would lead to a more efficient use of housing. At present people whose children have moved out have no incentive to move to a smaller flat. Someone with kids can't swap their inner London tower block flat for a house with a garden further out. There are cases where people in wheelchairs are put in two-storey houses, and never see the upper floor.

More importantly, this makes it possible for people in social housing to move to find work. As well as this direct effect, it also creates more mixed communities, and breaks up social housing ghettos. This in turn is good for employment and society, because work will become more firmly embedded in the everyday life of the community.

### **Tax Credits**

One of the newest streams of expenditure in welfare is tax credits. In 2010–11 Britain will spend £29.3 billion on the different parts of the scheme. But while it has two laudable aims, to provide a financial incentive to work for those on

low incomes and to give families with children enough money to raise them out of relative poverty, they conflict. For example, in the Working Tax Credit a recipient will get a tranche of money once they work for 30 hours or, if they have a child, a grant of money at 16 hours of work as well. This half of the system is clearly meant to incentivise work.

But the other half, the Child Tax Credit, just gives money out for being poor and having children, so it cuts the incentive to work by shrinking the difference in income between being unemployed and employed. In that sense it is not really a “tax credit” at all. We should stop referring to it as such.

Tax credits are also very generous: in 2010, families can still claim the benefit with a household income of £55,000 a year. For many of these families the money to pay these benefits comes straight out of their own pockets. In 2006–07, a family on median income of £26,599 paid £6,016 in tax and National Insurance contributions and received £5,383 back in benefits – £1,378 in Child Benefit, £2,047 in tax credits and £1,958 in other benefits.<sup>182</sup> That they didn’t receive the whole sum back is due to the fact that three pence in every pound spent on tax credits is consumed by administration costs.

Tax credits are also fiendishly complex. Claimants must inform Her Majesty’s Revenue & Customs (HMRC) of any changes in their income, an unreasonably regular task for those on variable incomes. They are supposed to keep records of their income and expenditure. Self-employment ought to be encouraged as a route out of unemployment. Instead, the tax credits system turns it into an administrative nightmare.

Britain’s welfare system also induces unintended, and undesirable, behaviour. Because HMRC could not cope with changing tax credit awards when claimants made small changes in their income, it decided to start ignoring any change in income from one year to the next that was less than £25,000. This means that a person’s income can rise by as much as £24,999 from one year to the next without there being any effect on the money they receive. Even though forms which need to be filled in are very complex, it is not hard for claimants to work out that if they underestimate their income or overestimate their childcare costs they will be able to claim more money than they are entitled to.

The system also gives good reason for claimants to pretend that they are lone parents, which they can do by failing to report to HMRC that they have a live-in partner who is contributing to living costs. In 2004–05, the tax credits

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182 Jones, Francis, *The Effects of Taxes and Benefits on Household Income 2006/07*, Economic and Labour Market Review July 2008

system had 200,000 more single parents on its books than were known to exist in Britain.<sup>183</sup>

### Income Support, the Couple Penalty and Lone Parenthood

Britain has a larger proportion of children living in households where no one works than any other EU country. There are two particular reasons for this: the insufficiently strong expectations on lone mothers with teenage children to work that persisted in the benefit system for many years, and the financial incentive that couples on benefits have to live separately and thus run the risk of permanently having one – possibly working – parent not in the family unit.

Most countries have a benefit for single parents, to support them while they look after their children. However, the UK has been unusual in not expecting single parents to work until their youngest child is 16 years old. The Government has decided to reduce this to seven years old, but because children who grow up in households where at least someone is working tend to be healthier and do better at school, it makes sense to encourage lone mothers back to work as soon as their child can be properly cared for in a nursery or by a nanny. It thus makes sense to think about asking lone parents to look for work once their child reaches, say, school age. This would start to increase the level of work among households with only one bread winner.

To prevent couples from splitting up in the first place, the “couple penalty” needs to be cut. This penalty occurs for a number of reasons. For the main benefits like Housing Benefit and Jobseeker’s Allowance, a childless couple receives about two thirds of the sum given to two single people. A couple will receive only half the level of working tax credit given to two lone parents. If one member of a couple works more than 24 hours a week or earns more than £22 a day, the other person in the couple loses their Jobseeker’s Allowance.

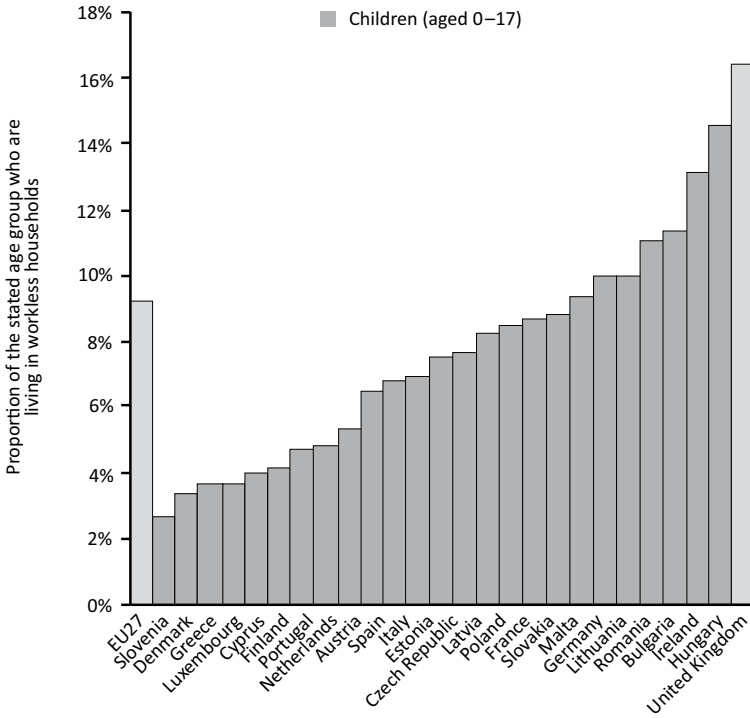
As a result more than half of couples earning between £4,500 and £8,000 a year would have a higher standard of living if they split up. There are around 1.8 million people who are hit by a significant couple penalty, each losing an average of £1,300 a year – which is a big sum for those on low incomes. As a result, there are around 10–15% less people in couples among lower earning groups than there otherwise would be.

Britain’s benefit system is quite extreme in international context. For example a workless couple in the US is almost as well off as two workless

183 Brewer, M, *Supporting Couples with Children through the Tax System, The IFS Green Budget*, Institute of Fiscal Studies 2007

single people. In Germany a workless couple is 20% worse off. But in Britain a workless couple is 40% worse off than two single workless people.

**Figure 23: The UK has a higher proportion of its children living in workless households than any other EU country<sup>184</sup>**



One of the major problems with this is that children brought up in single parent families are likely to do worse in life than those reared in two-parent families, so it is not a good idea to encourage family break-up. They are, for example: more prone to cot death, at a greater risk of suffering from abuse and neglect, more likely to have lower reading/maths scores, more likely to have a higher truancy rate, more likely to experiment with drugs in their teens, at a greater risk of suffering from depression or mental illness and more likely to end up in prison before they are 30.<sup>185</sup>

<sup>184</sup> Eurostat

<sup>185</sup> Saunders, Peter, *Reforming the UK Family Tax and Benefit System*, Policy Exchange 2009

The increase in lone parenting has also cost a lot of money. In 2006–07, families with children derived an average of 90% of their family income from their earnings, and the rest from benefits. Sole parents derived just 42% of their income from earnings and the rest from the state.<sup>186</sup> It is small wonder that the welfare bill on families with children has risen by 143% since the mid 1970s – a period over which the proportion of children raised by single parents has risen from 10% to 27%.

## Across the board reforms

Change to Britain's welfare system will take a long time. But by applying the principles outlined above it can start to be developed into something that looks after people who need long-term help because of an illness or disability, makes sure that as many people are kept in work as possible, and keeps the costs of welfare down. There are some reforms which should apply across different types of benefits.

### Conditionality that prevents claimants from both receiving welfare and working on the side

There is a significant body of evidence to suggest that things like the time-limiting of benefits helps to concentrate the minds of claimants who are not looking hard enough for a job. In Sweden, where there are such time limits, there is evidence to suggest that claimants start to move from unemployment to employment more quickly once they near the end of their welfare period.

Many people want to get off welfare and do so as quickly as they can. But others do not take the same approach. In places such as the United States and Australia, the introduction of strict requirements to attend regular interviews or complete training courses has reduced the number of people claiming benefits. People who are claiming and illegally working are simply not able to be in two places at once, and are forced off the benefits. In Australia, the welfare rolls were cut by around a third once claimants were asked to attend compulsory work programmes.<sup>187</sup>

It is difficult to know how much black market work is done by people on benefits in Britain, but qualitative evidence suggests that it could be widespread. In a Joseph Rowntree Foundation report, for example, one person on welfare who was also working said “[y]es, I’m guilty, on the fiddle. It’s

186 *Family Resources Survey 2006/07*, ONS

187 Kay, L and Hartwich, O (Eds), *When Hassle Means Help*, Policy Exchange 2008

disgusting, but everybody does it.”<sup>188</sup> Placing requirements on such people to be doing something to look for work puts them in a difficult position: do they stay on the benefit or leave it and rely on the other income they have?

Before major welfare reforms were implemented by Bill Clinton in the United States in the late 1990s, there were heated arguments about whether a more stringent approach to welfare claimants would lead to a “grate society”, i.e. one where the poor were left sleeping on grates. Thankfully, that did not happen. Through constant attention from benefit advisers and regular requirements to engage in the search for a job, many claimants who could otherwise look after themselves were encouraged off benefit. Those who needed help were also better able to take advantage of the jobs on offer.<sup>189</sup>

As well as making it less attractive to stay on benefits, and making it impossible to claim and work illegally at the same time, compulsory work or training also keeps people in the habits of work. One of the most corrosive effects of long-term unemployment is that people become less employable because they are not used to working. Making welfare more conditional can help to stop this.

Countries like Norway, Sweden and Germany have all moved towards a culture of “rights and responsibilities” in the benefits system. As well as reducing fraud and helping people to move into work, such an approach is fundamentally fairer: it allows the system to focus effort and resources on those who really need it, rather than those who do not need help.

### Work incentives that mean at least some work is always worth doing

At the moment Britain’s welfare system tries to incentivise some categories of people to work, but, as a consequence, leaves many others on welfare. This is a state of affairs that has been actively designed into the tax credits system. So, someone over 25 on Jobseeker’s Allowance will receive around £30 in tax credits after working for 30 hours. However, somebody else who is ill or caring for a child and can only manage ten hours of work per week will only be around £20 better off. It is thus not surprising that there are so many incapacitated claimants and carers in Britain’s welfare system who could work but choose not to.

Britain can keep the incentives for some claimants to work for long hours but add stronger incentives for others to take a dip into the labour market by increasing something called the “earnings disregard”. This is the amount of money that someone moving from welfare to work can earn before their

188 Page D, *Communities in the Balance: The Reality of Social Exclusion on Housing Estates*, Joseph Rowntree Foundation 2000, p.28

189 Besharov, D, ‘Two Cheers for American Welfare Reform,’ in Kay, L and Hartwich, O (eds), *When Hassle Means Help*, Policy Exchange 2008

benefits start to be withdrawn. At the moment this level can be somewhere between £5 and £20, depending on what benefits a person is claiming.

If the earnings disregard for long-term claimants was raised to £92.80 per week (16 hours of work at the minimum wage) for all means-tested benefits then there would always be a strong incentive for welfare claimants to work.<sup>190</sup> Benefit advisers could then tell claimants that “yes, you should work. It will be better for you because you will definitely be £92.80 better off.”

This could be paid for by finding savings elsewhere in the benefits system. For example, we could look at tapering away Child Tax Credit and Child Benefit for higher earners, or undoing the one-off above inflation boost to the value of all benefits announced by Alastair Darling in the 2009 Pre-budget Report. This higher disregard could either be applied to all claimants, or to save money, only to claimants who have been on benefits for a number of years.

At present the long-term unemployed and ill have to choose between staying on benefits, or risking their whole benefit income to try to get a full time job. If they take a temporary contract, and it ends, it may be a long time before they can get benefits again. For people who have been out of work for years, this can seem like a daunting prospect. They cannot start by doing a bit, and then gradually do more and more work, because the hours rules in the benefits system present them with an all-or-nothing choice. They are not given any financial reason to do at least some work. By allowing claimants to keep their benefits while they start to return to work we can dismantle this all-or-nothing trap, and really start to cut some of the social problems of endemic unemployment.

### By strengthening families

Family structures are important to the likelihood of a child achieving his or her full potential. There is extensive research that shows a stable life at home can help a child get better grades at school, form stronger personal relationships and generally reach a higher level of personal fulfilment. Making sure this happens should be an aim in itself, but it should also help some communities in Britain break the cycle of under-achievement and unemployment that passes from one generation to the next. Several things need to change.

1. By recognising marriage in the tax system, being more consistent about the reasons for helping families with childcare costs and increasing independence from the welfare state by cutting the level of “churning” (paying taxes and then getting the money back in benefits), this higher

<sup>190</sup> Tax credit rules start to apply above 16 hours of work for some claimants

trajectory of achievement could be attained. This would mean doing several things: restoring tax allowances for dependent children and non-working spouses.

2. Curtailing the payment of tax credits so that they are only paid to poor families.
3. Change to the tax credit system so there is a single “Family Credit” that also takes into account partners and thus abolishes the couple penalty in the system.
4. Child Benefit payments should be paid during the earliest years of a child’s life so that parents who stay at home can defray the costs of lost wages and provide the best care when their child most needs it.
5. Once a child reaches school age, a family should be expected to become self-sufficient.

At the moment Britain’s confused social security system has so many problems in it that even small changes look like too much effort. Governments are perpetually faced with vociferous objections from welfare campaigners when they try to encourage people off benefits. This happens even when there is clear evidence to show that being in work really is better for all concerned.

But by making the help that a person on benefits gets happen earlier; increasing the freedom that people in council housing have to move to where there is work going; giving people on welfare more of a financial reason to work; asking claimants of health benefits to show that they really are incapacitated; and lessening the financial cost of remaining as a couple, Britain can start to solve its massive welfare problem. Then it can get back to what “social security” is all about: helping the unemployed avoid serious hardship and looking after those who cannot work.

### **Action points**

- Welfare reform should start from a clear set of principles: welfare is to avoid hardship not replace work; we should prevent people from drifting into dependency and make work pay.
- We should introduce a “right to move” in social housing, to allow people to move to find work.
- For illness-related benefits we should improve diagnosis tests, and encourage people to do whatever work they are capable of.
- We should reform tax credits to reduce complexity and deliver stronger work incentives. We should stop calling benefits tax credits if they are not.

- We should reconsider the way housing benefit operates – particularly in the most expensive areas.
- We should go further in the direction of the Government's reforms of Income Support, and expect lone parents to look for work once their child reaches school age.
- We should increase conditionality across the system to encourage work and reduce fraud.
- We must ensure that work always pays – and should consider increasing the earnings disregard to solve the problems of the current complex system.
- The tax/benefit system should support rather than penalise families, to reduce the longer term costs of social breakdown.

# 11

## Economic Growth – How Well Have We Been Doing?

### Economic Growth Compared

Economic growth in EU economies (in total output terms)

Country	United Kingdom	France	Germany	Italy	Spain	Sweden
GDP growth 1980 – 97	52%	39%	44%	39%	55%	34%
GDP growth 1997 – 09	33%	22%	16%	13%	40%	32%
GDP growth 1980 – 09	106%	72%	61%	51%	119%	75%

Economic growth in non-EU economies (in total output terms)

Country	United States	Canada	Japan	Korea	Brazil	China	India
GDP growth 1980 – 97	69%	51%	76%	277%	43%	421%	147%
GDP growth 1997 – 09	29%	29%	5%	54%	38%	196%	122%
GDP growth 1980 – 09	122%	93%	85%	481%	97%	1444%	450%

Economic growth in EU economies (per capita)

Country	United Kingdom	France	Germany	Italy	Spain	Sweden
GDP growth 1980 – 97	46%	28%	34%	38%	46%	26%
GDP growth 1997 – 09	21%	15%	12%	3%	21%	26%
GDP growth 1980 – 09	77%	48%	51%	42%	77%	58%

## Economic growth in non-EU economies (per capita)

Country	United States	Canada	Japan	Korea	Brazil	China	India
GDP growth 1980–97	41%	25%	63%	212%	4%	316%	73%
GDP growth 1997–09	17%	20%	4%	46%	18%	175%	84%
GDP growth 1980–09	64%	50%	70%	355%	22%	1042%	218%

During the 1990s and 2000s there was a sense that Britain had enjoyed a sort of economic miracle, and the Chancellor was fond of lecturing other European countries about the need for them to emulate the UK's economic reforms. But ironically at the same time the UK started to move away from the reforming path it had been on, and towards a more highly taxed and regulated model.

How well did we really do? Certainly on the face of it the figures look fairly good. During the 1980s and early 1990s the UK came off the bottom of the economic league table, and started growing more rapidly than its developed economy peers. Of our sample here, only Spain and the US grew more rapidly. Growth from 1997–2009 has not been as fast, but was more rapid than any peer except Spain – even the US was outstripped in this period (indeed, by early 2008 GDP per capita in the UK exceeded that in the US for the first time in over a century, though that was partly associated with the relative strength of the pound at that time (at above \$2=£1, and during 2008 and 2009 the pound fell in value significantly). Over the period as a whole, in terms of output per capita, the UK was the top performer, equal with Spain.

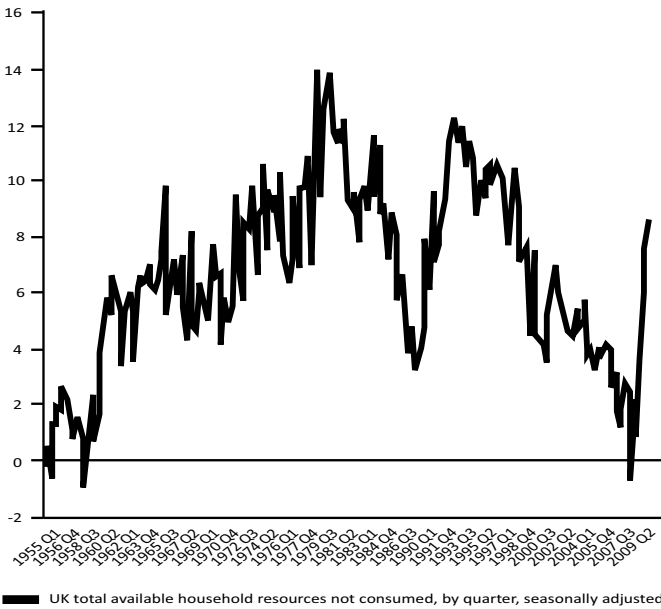
Part of that may have been a matter of catching up with our economic peers after very a bad performance over the 35 years following World War II. By the end of the 1970s the country was mired in industrial unrest and dragged down by uncompetitive nationalised industries: to coin a phrase, things could only get better.

Thus, compared with our peers, the UK's performance was good – indeed very good, over the period, albeit not as strong in the period 1997–09 (either in absolute or relative terms) as in 1980–97. But when we compare our performance to emerging economies, it is not nearly as strong as growth in China or India – the competitors of tomorrow.

## A fake boom?

Moreover, economic growth in Britain in recent years has been partly the product of increased borrowing on the part of individuals and heavily concentrated in particular sectors. In May 1997 UK households saved about 10% of their available incomes. In 2007 this figure had fallen to 2%, and in the early part of 2008 the proportion saved went negative for the first time since the 1950s. Associated with this collapse in savings was a large rise in indebtedness. In 1997 UK personal debt was equivalent to 107% of disposable income.<sup>191</sup> But it rose rapidly during the 2000s to a peak of 186% in 2007 — a much more rapid rise than in other large developed economies.<sup>192</sup> Since the credit crunch, household finances have begun to unwind with the realisation that debt will be harder to come by in future, threatening the UK with sluggish economic growth for years to come.

**Figure 24: UK savings ratio**<sup>193</sup>



191 OECD *Economic Outlook* 86, Annex Table 58

192 By way of comparison, the increase in the US was from 95% to 136%, that for Canada was from 110% to 142%, that for France from 68% to 100%, and for Italy from 43% to 72%, while in Germany there was actually a fall in indebtedness across the period from 105% to 98%, and in Japan a fall from 132% to 128%.

193 *Economic and Labour Market Review*, January 2010, Table 1.07,  
[http://www.statistics.gov.uk/elmr/01\\_10/downloads/Table1\\_07.xls](http://www.statistics.gov.uk/elmr/01_10/downloads/Table1_07.xls)

## Dependence of UK growth on particular sectors

Of particular concern has been the dependence of growth in the UK on growth in particular sectors – especially the financial services and housing. Consider the table below, which considers the period up to 2007, when the financial crisis began.

### The changing role of the financial services sector

<b>Financial intermediation, real estate, renting and business activities</b>	<b>1980</b>	<b>1997</b>	<b>2007</b>
Gross Value Added as Proportion of GDP	16%	22%	27%
		<b>1980–1997</b>	<b>1997–2007</b>
Growth in financial intermediation, real estate, renting and business		107%	67%
Average growth rate per annum (compound)		4.4%	5.2%
Growth in GDP		52%	33%
Average growth rate per annum (compound)		2.4%	2.9%
Proportion of total growth in GDP accounted for by finance and real estate		33%	44%

Source: OECD.

We see that the financial intermediation and real estate sectors<sup>194</sup> of the economy grew in significance over the period. In 1980 they comprised about 16% of GDP, growing to 22% in 1997 and 27% by 2007. The average growth rate of the sector was much faster than that of the economy as a whole in both 1980–1997 and 1997–2007. However, the dependence of total growth on this sector was increasing over time. Whereas from 1980–1997 only about one third of total spending was driven by expansion in this sector, from 1997–2007 this had risen to 44%.

This rapid expansion in the financial sector should not be expected to continue, even setting aside the acute period of the credit crunch. The fact that the UK – along with certain other significant players in the developed world such as the US – increased its borrowing in the 1997–2009 period

<sup>194</sup> Note that this is the real estate sector in the sense of renting commercial property and so forth. The construction of houses is a different sector not covered in this table.

implies that financial sector growth is likely to have been higher than would be sustained over the longer term. The reason is twofold. First, during the period of increasing leverage the financial sector would be temporarily larger as financial firms expanded their operation. This is because they were (a) loaning money to households and (b) raising money in financial markets to fund those loans or lending money to the companies that lent money direct to the households. Even if the market simply settled down to its new higher-debt equilibrium, one would have expected the financial sector to shrink.

But matters are worse than this from the financial sector's point of view, because it is not merely that the temporarily exaggerated volume of transactions cannot be sustained. As a result of the recession, people's opinions about their job security and the future growth of the economy have been revised down dramatically, with the consequence that they are seeking to reduce their leverage considerably – and are paying back their loans. In the graph above we see, in 2009, a dramatic rise in the savings ratio – going up by the third quarter of 2009 by 9.3% in six quarters and seeming likely to rise further still. The previous most rapid rise in such a short period was the 6.8% between the second quarter of 1979 and the fourth quarter of 1980. This increased savings ratio has arisen largely through the paying down of debt. In the near-term, at least, it seems we should expect significant deleverage and as a consequence much less for financial markets to do and hence a smaller financial sector.

This is also an international phenomenon. As a global player in financial services, the UK was a key gainer from international imbalances. There are likely to be significant reductions in leverage in a number of countries – e.g. the US or Ireland. This international dimension will be negative for the growth of an international player like the UK financial services sector.

A third negative is the regulatory outlook for the sector. There is very likely to be considerable additional regulation. Some of this increased regulation will doubtless be useful, whilst equally doubtless is that some additional regulation will be ill-conceived. But whether useful or not, the likely outcome will be the curtailment of UK financial sector activities.

Given that financial services seem likely to be a less significant driver of growth in the future, policymakers have been forced to consider what alternatives there might be. Much recent political discussion has focused on the future role of manufacturing. And it is true that, for example, in the 1990s the US reversed the previous trend for the manufacturing sector to shrink relative to that in Japan. At some point even in rapidly developing economies, workers demand higher pay. This in turn has an effect on unit labour costs, while at the

same time, better established countries have certain advantages in high-end innovation. Eventually one might expect similar effects for Chinese and Indian manufacturing, which may create an opening for UK manufacturing to have a US 1990s-style new golden age.

However, there is little reason to suppose that, even if the kind of scenario sketched above is possible, it is in any way imminent. In the meantime, there are many other sectors apart from financial services in which the British economy is strong, and these might provide a natural first port of call to take up the slack as financial services decline. In areas such as the law, accountancy, and parts of the media, Britain has world-leading firms. In advertising, insurance and management consultancy, although Britain is not the world leader, it is among the top two or three players and these sectors may have the opportunity to expand. Britain has great potential for growth, if policy does not hold it back.

## Why growth matters

For some commentators, economic growth has almost become a dirty phrase over the past 20 years, associated with pollution, inequity and unsustainable boom. An extended (and historically unprecedented) period of affluence, with no recession, from the early 1990s onwards led politicians to become complacent about growth, taking its presence for granted in a way that it was not taken in previous decades when recessions were more common. Instead of overarching promises of faster growth, the language has now naturally switched to green growth, responsible growth and quality of life issues – we are not, in other words, promising to make you richer (the subtext being that that will happen by itself), but we will try to make you more fulfilled and help leave a better planet for your children. This is not to say that quality of life issues are unimportant, and nor was an increased focus on quality of life inappropriate at a time of peace and plenty and without recession. But there is no doubt that policymakers became complacent.

There is not, inherently, a choice to be made between economic growth and quality of life. True, official statistics may sometimes establish a perverse trade-off: if, for example, you use traffic levels as a measure of economic growth you are setting up the absurd notion that a gridlocked country must be a rich one. But there is no fundamental reason why economic growth must mean environmental degradation and human stress. On the contrary, some of the world's richest countries, such as Switzerland and Norway, are also the most pristine, while some of the poorest are the most polluted. Most people have come to place a value on a healthy environment, and you do not achieve

economic growth by destroying value. You can achieve growth by improving the environment, which is why the rivers of most developed countries flow much cleaner than they did a generation ago. Over the next 30 years the same may happen with traffic: now that most people place a negative value on traffic, there is wealth to be generated through the development of technologies which enable us to spend less time travelling by road.

In itself, economic growth, when properly defined, is a good. The faster it occurs, the better. It doesn't have to mean more cars, more food, more gadgets, but higher value products. It doesn't have to mean the more rapid consumption of resources; on the contrary, it is part of the process of enrichment that we develop more efficient ways of using resources. The personal computer on your desktop consumes a tiny fraction of the energy and raw materials required by the much less powerful, room-filling computers of the 1970s, yet it is a vastly superior machine.

It is true, of course, that there may be a trade-off between economic growth and economic volatility, in the sense that more growth (a good) may come with more volatility (a bad). Rapidly-growing economies naturally involve high degrees of innovation and risk-taking, and innovations may not work and risks may go bad. The risk-taking that promotes growth, intrinsically and by its very nature, also increases volatility. Since volatility is socially damaging – leading to unemployment, for example – the volatility/growth trade-off that maximises growth with maximum volatility is unlikely to be optimal from a social welfare point of view.

This is not completely obvious, though, and in any event another factor might intervene. At some point, volatility could be so high that normal economic processes could break down and social order might be materially threatened. Alternatively, if the political system allows it, excessively high volatility might lead enough of the population to suffer to the point of voting for intervention. In that event, even if the gains of the gainers from high volatility more than offset the losses of the losers, in practice these very high-growth/very high-volatility policies are not feasible.

We might thus be searching, not for either the highest level of growth possible, nor for the socially optimal trade-off between growth and volatility according to standard models, but, rather, for the highest level of growth compatible with the ability of the political system to tolerate the volatility implied.

Though it is important to acknowledge the volatility growth trade-off, it is also crucial not to exaggerate its significance. For whether your economic growth rate is 1.8% or 2.3%, might not seem important in any one year, and

it may seem attractive to have a bit less risk of volatility in exchange for that modest 0.5% of GDP loss of wealth. But over time the compound effect is enormous. The difference in growth of GDP per capita between Britain and the US over the past century has only been in the order of 0.5%, but over the course of a century it has allowed the US to overtake Britain and become by far the most dominant economy on earth. If you take two economies of the same size, one of which achieves growth of an extra 0.5%, after 50 years, the faster-growing economy will be 28% larger than the slower-growing one and after 100 years the difference will have grown to 64%.

By then, people living through the downturns of the fast-growing/high-volatility economy will be richer than those even of the slow-growth/low volatility economy during their best times, and the idea that the slower-growing country somehow enjoys better quality of life will seem bizarre. The richer country will be able to afford better healthcare, better housing and a better environment, and its poor will be richer, even in the worst times.

If we want better public services, a better environment, and a better condition for the poor, what matters most in the long term is economic growth.

## Going for growth

Why, when the importance of economic growth is so clear, do we have economic policies which are thwarting it? The destructive effect of the growth in public spending has already been described in Chapter 5: for every 1% of GDP rise in public spending in a European country there is a corresponding 0.13% fall in GDP growth.<sup>195</sup>

In Britain in 2000 public spending reached a low point, and accounted for 36.3% of GDP. In 2009–10 the government will spend 47.5% of GDP. By this measure, the growth of the public sector over the past ten years is robbing Britain of economic growth to the tune of nearly 1.5%. If growth is suppressed by 1.5% a year, then after ten years the economy will be 14% smaller than it would otherwise have been. After 30 years the economy will be 36% smaller.

There is also the cost of regulation to consider. The cumulative cost of regulations introduced in Britain in the decade 1998–2008 has been estimated to be £148.2 billion – or 10% of GDP.<sup>196</sup>

195 Afonso, A and Furceri, D, *Government Size, composition, volatility and economic growth*, European Central Bank working paper series 849 2008

196 Persson, M, *Out of Control: measuring a decade of EU Regulation*, Open Europe 2009

Action to reduce the size of the state and to reduce regulation will have a huge impact on the size of the British economy in a generation's time. If we wish to avoid falling behind other developed economies, and not risk being overtaken by the faster-growing developing economies, it is an opportunity which has to be taken.

## Remove the presumption against growth

At present, a business which wants to grow runs up against obstacles at every stage. If it wishes to put up a new factory or warehouse it must ask the local authority for permission – potentially causing several years' worth of delays. It will have to make available reams of documents justifying the need for the new premises and saying how its plans will conform with various planning policies. It may have to show that it has considered a number of sites and explain why this is the best one.

If the business receives planning permission to develop new premises it might need to apply for licences to dispose of material extracted on site – causing more cost and more delays, often with no benefit to the environment or the public whatever. In one case a businessman wanted to turn a disused chalk quarry that he owned into a wetland nature reserve. To do this he needed to create some pathways, which he did by using non-contaminated hardcore from the building industry. He was charged £2.5million in landfill tax for pouring industrial waste into a wetland environment.

An expanding business needs to hire more staff. In doing so it will have to comply with growing employment legislation, much of which may be burdensome and ill-targeted (particularly certain requirements of equalities legislation). If the business needs to hire specialist staff from outside the EU, it will have to apply for work permits and prove why it needs to hire these particular people.

Having overcome these obstacles, the expanding business will come up against two further problems. First, there is a creaking and inadequate infrastructure, especially the road network which is inferior to those of most of the UK's competitors. France and Germany have about 20 miles of motorway for every billion vehicle kilometres travelled per annum. The US has 17 and Britain just nine.<sup>197</sup>

Secondly, there is costly and inadequate housing. While the issue of housing is not always connected to business, a lack of affordable housing in the

<sup>197</sup> Wellings, Richard and Lipson, Briar, *Towards Better Transport*, Policy Exchange 2008

right places is an impediment to businesses trying to recruit staff. A business which struggles to recruit staff in London is not necessarily going to relocate to the East Midlands, where the planners have decided to put the bulk of new housing; it might decide to relocate to Singapore or San Francisco instead.

Together, these obstacles present a formidable disincentive for businesses, both to come to Britain in the first place, and to expand when they are here. The following chapters on infrastructure, regulation and planning lay out how these burdens can be reduced.

## 12

# Better Transport

“I will have failed,” announced the then environment and transport secretary John Prescott when launching his *New Deal for Transport* in 1997, “if in five years’ time there are not fewer journeys made in a car.” This was to be brought about by an integrated transport policy, with comprehensive investment in public transport making new road schemes redundant. It was also believed that if more roads were built they would simply fill up again.

The Government stuck to half its bargain: it all but stopped building roads. Unfortunately, however, few of the promised public transport schemes which were supposed to obviate the need for new roads ever materialised. The result is a creaking and congested transport system which compares unfavourably with those in other Western European countries. Moving around Britain is slow, unreliable and extremely expensive.

On international measures, British infrastructure compares poorly. Each kilometre of road in Britain is annually used by 1.6 million passengers. According to estimates, traffic congestion costs the country between £8 billion and £21 billion a year.<sup>198 199</sup> The Government’s new deal for transport failed partly because it was misconceived. Roads, though they can be noisy or unpopular, are essential to an industrial economy. The Government needed to mitigate the negative effects of roads, not pretend that we could do without them.

But public transport is a mess too. Only 30% of our railway is electrified compared with 70% in Belgium, Sweden and the Netherlands. Trains running from London to Cambridge are officially recorded as running at 170% of their total capacity.<sup>200</sup>

198 Blythe, P, Congestion Charging: technical options for the delivery of future UK policy *Transportation Research Part A* 38, 2006

199 Eddington Report, DfT, December 2006

200 Department for Transport response to FOI request

The cost of a creaking transport system is not just felt in lower growth and fewer jobs. More time sat in congestion, or commuting on slow public transport, means less time to spend with your friends and family. We would all like more time – and with better transport we could have it.

## Putting money where it is least needed

The allocation of transport resources is bizarre. Railways, which account for 6% of passenger journeys, consume £6.5 billion of subsidy. Roads, which account for 84% of journeys, have to make do with £8 billion. Priorities need to change if we are not to constrain the economy and dissuade businesses from locating in Britain. This will require an overall switch of resources from rail to road, but within each sector there is also need for a reallocation of resources.

Too often, money has been misallocated to transport projects which fulfill political, social or regeneration objectives, but which are far removed from the real congestion. Money was found, for example, to upgrade dual carriageway to a three-lane motorway between Carlisle and Glasgow. Yet the A14, which is the main link between Felixstowe container port and the industrial heartlands of the Midlands and North, remains a substandard two-lane dual carriageway, which in places mixes local with long distance traffic. The same is true of the A34 in Oxfordshire, which links the Midlands and the North with Southampton docks.

## The road to growth

Britain was slow to commence motorway construction. The first motorway of any length was opened in 1959, more than 20 years after motorway programmes began in other industrialised countries. It was also the first nation to call a near-halt to road construction. Since the early 1990s road building in Britain has become a pariah activity. Stung by protests over the M3 extension across Twyford Down, Hampshire, and the Newbury bypass, the then Conservative Government switched off funding for new road building and the present Government has never turned it back on.

The reluctance to build new roads harms the economy and does little for the environment. Many towns and villages which could have been bypassed remain choked with traffic. Stop-start driving consumes more fuel and creates greater pollution than when vehicles can keep to steady speeds. Consideration

needs to be made in particular for East-West motorway links in the south of England, which at present is poorly served.

In order to fund the building of new roads it will be necessary to find new ways of raising revenue. We also need a system which better manages road use other than the free access system which exists at present. Both these objectives can be realised through a national road-pricing scheme, which charges the user on a per-mile basis and where the prices can be adjusted according to the time of day. Such a system puts a value on time and a value on road space, which encourages motorists to travel at less congested times and emptier roads. At present, motorists pay no more for using the Limehouse Link, a particularly expensive road built in Docklands in the 1990s, than they do for using a stretch of rural 'B' road which has received little investment in half a century.

The Government has made proposals for national road pricing, but they have since been dropped, following objections from motoring groups. The protest is understandable given the reputation of successive governments in using motorists as "cash cows". Private road-users pay £32 billion in taxes a year, of which only £8 billion is spent on the roads. It is not even as if all the extra revenue is spent on alternative modes of travel: there is a £14 billion gap between the taxes raised from transport users and the money spent on all forms of transport.<sup>201</sup> Opposition to road pricing may also have been stirred by the hostile nature of the payment system for the London congestion charge. Motorists using roads in the congestion zone must pay, by means of a time-consuming telephone call, text message or transaction in a shop, or by the end of the day after they have entered the zone – or else face a stiff penalty. It is a system almost designed to trap the unwary, who may not even have realised they entered the zone, and the forgetful, who might have been working too hard to meet the deadline.

Road pricing should be put back on the agenda. The technology already exists to track vehicles by satellite and need be no more expensive to administer than the system by which mobile phone companies bill for customers' calls. But it will be necessary to devise a more customer-friendly means of levying the charge than is used with the London congestion charge. As with other utilities, customers should be sent a monthly or quarterly bill. There must be a viable means of levying the charge on foreign-registered vehicles and there will have to be a sharp improvement in record-keeping by the Driver and Vehicle Licensing Authority – which has admitted that 820,000

201 *Transport Statistics Great Britain*, DfT 2006

of the 33 million vehicles on the roads are either not registered or are registered inaccurately.

A road pricing system would give road-operators an incentive to keep roads open. Road pricing could also have a role to play in improving road safety. Insurance premiums could be set according to road usage, making cover cheaper for motorists who drive less often, or who avoid accident blackspots. There would thus be a financial incentive for road operators to ensure their roads had a good safety record.

There is a way by which political opposition to road-pricing could be minimised: by restricting its use, initially, to new roads and particular choke points. The broadening of road pricing to existing roads must be linked to the abolition of other motoring taxes, most obviously the vehicle excise disc. Some fuel tax, though, should remain in order to ensure that motorists pay the environmental cost of their carbon emissions.

National road pricing must not be used solely as a congestion charge but as a means for generating revenue for new road construction. It will only be possible to sell the concept of new road investment to the public, however, if design standards are improved to reduce environmental and social impact. New roads must be designed to ensure the separation of local traffic from long-distance traffic and the segregation of vehicles from cyclists and pedestrians. Too many important roads have been built on the cheap, with roundabouts and dangerous crossover junctions rather than grade-separated interchanges, without pedestrian bridges and hard shoulders, without landscaping to reduce the impact on nearby settlements and with bridges that do not allow for expansion. Many such roads have proved to be a false economy as the resulting accident blackspots have to be eliminated in piecemeal fashion.

## Making a mess of private involvement

Bizarrely, the railways are now consuming over four times the subsidy they were upon privatisation by the Conservatives in the 1990s – even though one of the main reasons for privatisation was to remove the burden on taxpayers. Private railway operators have found themselves unable to reduce costs partly because of the pseudo-market structures which were imposed upon them at the time that they were privatised. Train operating companies must lease rolling stock from leasing companies, most owned by the banks, at excessive rents. Rail regulator Chris Bolt calculated in 2006 that train companies were paying

£175 million more per year than they would be doing in a truly competitive market – equivalent to 8% on the price of season tickets. Operators were paying £1,000 per week even for 30 year old trains.<sup>202</sup>

Vertical integration between track operation and train operation, which could bring greater efficiencies, is impossible under the franchise system, which decrees that trains and rails must be under separate ownership. Regulation is excessive. In one case South West Trains were forbidden from putting new trains into service because the lettering on the electronic message boards at the end of each carriage was three millimetres too small to conform with new disability legislation.

Railway companies are also hampered by rules preventing the closure of hopelessly uneconomic lines – there are 400 stations used by fewer than 25 passengers a day – which suck money out of services that could be profitable. While subsidies have grown, so have fares, in many cases way in excess of general inflation. Except for a few cases, privatisation has failed to introduce competition – which should have been one of its main objectives. Train operating companies enjoy local monopolies protected by the franchise system – and yet are free to set peak-time fares.

There is a wider point here. The Government's public transport policy has also failed because of lack of coherent vision and a poor grip on cost control. The Government promised that private finance would take the strain off the taxpayer, but too often it was the taxpayer who ended up footing the bill when costs over-ran. The Government promised trams in many cities, but those which have been built have resulted in large, ongoing costs to taxpayers because of poor design and management. The Channel Tunnel Rail Link, which was supposed to be built without any input from public funds, eventually cost the taxpayer £2 billion in direct grants. A further £3.75 billion bond issue was underwritten by the Government. Metronet, the private-public partnership (PPP) set up in 2003 to undertake the modernisation of tube lines, collapsed in 2007 due to cost over-runs. It then fell to London Underground to complete the work and, ultimately, risk had not been transferred at all.

## The only thing that arrives on time is the bill

The failure to build transport infrastructure has cost the country dearly. But so too has the mishandling of many projects. Building transport infrastruc-

ture projects in Britain invariably has proved vastly more expensive than similar projects abroad. The modernisation of the West Coast Main Line was originally projected by Railtrack to cost £1.3 billion. But it turned out that the technology of moving block signalling upon which that estimate was based did not actually exist. Upgrading the line eventually cost taxpayers £8.6 billion – and that was for a budget version of the original scheme, with trains running at a maximum of 125 mph as opposed to the 140 mph originally proposed. It also emerged, following a fatal derailment in Cumbria, that the upgrading had excluded the replacement of many stretches of track.

By contrast, the French built a brand new 186 mile high speed line from Paris to Strasbourg for €5 billion – equivalent to £3.54 billion when the line was completed in 2007. One of the reasons for this vast disparity in costs is that the upgrading of the West Coast Main Line required work to be carried out in short periods at nights and weekends when train services could be halted. It is unfortunate that a lot of money that could have gone into the construction of a brand new high speed line has already been spent patching up a 150 year old line.

The cost of many road schemes has similarly escalated. In 2003 the cost of widening a stretch of the A14 in Cambridgeshire was estimated by the Department for Transport at £490 million. Five years later the estimate had soared to £1.2 billion – and still the road was nowhere near construction. In 2007 the National Audit Office reviewed 61 road schemes in the Local Transport Plan and concluded that costs on average would end up 31% higher than had originally been estimated.

The reasons were poor estimation skills. It emerged that the Department of Transport had been using the Retail Prices Index to estimate the likely rise in costs – when raw materials and the cost of labour were rising far more sharply. Other factors were constant changes to plans, involving extra junctions and changed layouts, surveys which underestimated the difficulty in ground conditions and changing safety regulations. As the Public Accounts Committee noted: “Since the dawn of civilisation, governments have been constructing roads, yet the [Highways] Agency has yet to master the estimation of scheme costs, and lives within its budget by allowing schemes to slip sometimes years into the future.”<sup>203</sup>

Indeed, one of the reasons infrastructure costs are so high in Britain is the stop-start nature of projects. Crossrail – a new underground mainline running

from Paddington to Liverpool Street – was dithered over by successive governments for nearly 20 years in the planning stages before being approved in 2007. The £16 billion scheme may yet fall foul of spending cuts. The result of the stop-start nature is outright waste. Liverpool City Council, having been promised £170 million of government subsidy for a new tram system, spent £35 million on preparatory work, including the purchase of land for several miles of track. The scheme was then shelved.

## Securing more investment

The Government's favoured means of funding infrastructure projects in Britain over the past decade has been Private Finance Initiatives (PFI). There are several means by which finance could be provided more cheaply, and investment speeded up as a result. A new category of Individual Savings Accounts (ISAs) should be created to encourage infrastructure investments. A new class of bonds should be created based on the existing Regulatory Asset Base, a guarantee from government to the privatised utilities, backed by the value of the infrastructure which they are funding and paying interest tax-free. This would encourage investment by pension funds.

In addition, an infrastructure bank should be created along the lines of Infrastructure Australia and KfW in Germany. This would take over the roles of the Public Works Loan Board, the Treasury Infrastructure Finance Unit and Partnerships UK, and would help to fund projects in the initial stages of construction.

## Making our transport infrastructure work harder

Of course, it will not be possible simply to build more and upgrade our infrastructure. We can get more out of what we have already. As Sir Rod Eddington pointed out in a huge (but largely ignored) report for the Department for Transport, we could do all kinds of things to get more capacity on the cheap, and we should prioritise these.

We could relieve bottlenecks on the motorways by allowing people to drive on the hard shoulder. We could add more carriages to overcrowded trains. We could encourage people to avoid travelling at peak times, by changing the pricing structure for the tube and railways. As well as having more roads and more tracks, we can use what we have more cleverly.

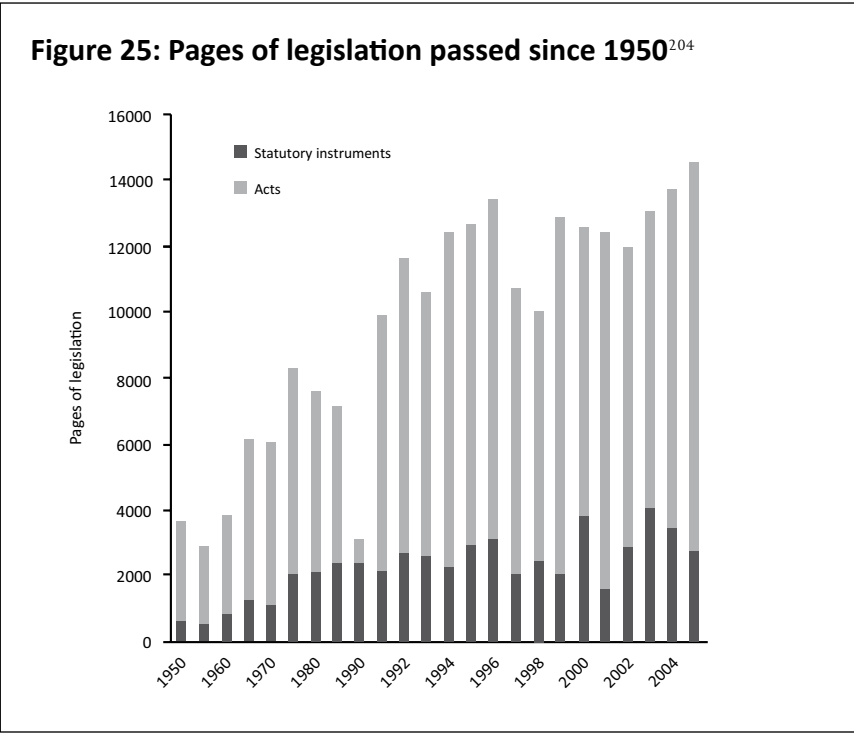
**Action points**

- We should focus spending on areas of real congestion and on the modes that are most cost effective – particularly roads.
- We should introduce road pricing to reduce congestion and use roads more efficiently.
- Railway franchising arrangements should be re-examined, and the regulations which drive up costs on the railways stripped back.
- We should reduce the costs of investment by rationalising the various infrastructure financing bodies into a bank along the lines of KfW in Germany.
- We should make our infrastructure work harder for us, as suggested by the Eddington Review.

# 13

## Regulation

There are different ways to think about how big the state is. One way is to measure how much government owns, or what it produces. Another is to look at how much it spends – which includes benefit spending too. But to get the full picture, we need to look at how much government regulates.



204 House of Commons Library research note: [www.parliament.uk/commons/lib/research/notes/snsg-02911.pdf](http://www.parliament.uk/commons/lib/research/notes/snsg-02911.pdf)

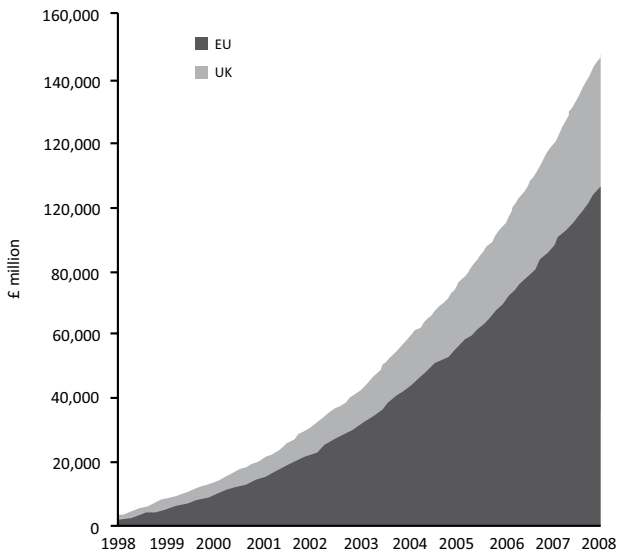
In the 1980s and early 1990s it seemed the state had shrunk. The Government stopped owning nationalised industries. Spending was brought under control, for a time. But in terms of regulation, the state never stopped growing.

In 2008, the UK Government adopted 2,265 laws, 1,120 of which were labelled regulations. This translates into nine new laws per working day.

The number of pieces of legislation being passed has been rising for a long time. We now pass nearly four times as much legislation a years as we did in the 1950s.

Since 1998 every Government department has been obliged to produce “impact assessments” for all significant new pieces of legislation. These reports are supposed to calculate the costs and benefits of introducing new regulations, and so make officials and politicians think twice before churning out new laws. In practice, most of these expensively produced economic reports are simply filed in a dusty cupboard and forgotten about. But at least this allows us to have a running count of how much all this regulation is costing. And it is a huge amount.

**Figure 26: Piling up: The cumulative cost of regulation 1998–2008 (2008 prices)** <sup>205</sup>



<sup>205</sup> Open Europe, *Database of Regulatory Impact Assessments*

Putting together the Government's own figures for all legislation introduced between 1998 and 2008 the cumulative cost comes to a stunning £148 billion.<sup>206</sup> Of this total, 72% was deemed to have had its origins in European directives and the rest was generated in Britain. The most expensive regulation was the Working Time Directive, which has so far imposed a cost of £17.8 billion on business and is imposing a recurring annual cost of £1.8 billion.

A huge number of people are employed in enforcing all these regulations. For example, in the early 1990s the Institution of Occupational Safety and Health (IOSH) had just 6,000 members.<sup>207</sup> Today its membership stands closer to 36,000, with at least 3,500 of them working in the UK as dedicated health and safety consultants (both employed and self-employed).<sup>208</sup> Over 1,500 "specialist" health and safety firms now offer their services to businesses, and analysts have valued the sector at between £700 million and £1 billion.<sup>209</sup>

Who pays the price for all this? While complaints about "red tape" and regulation are often heard from people in business (particularly small businesses), regulation is often even worse for charities or public services.

For example, because of a surprise ruling by the European Court of Justice, the NHS has been forced to implement the European Working Time Directive.

John Black, President of the Royal College of Surgeons says "the result will be catastrophic for the NHS, with patient safety on a knife-edge, surgeons not being properly trained, waiting lists going up again and even hospitals closing . . . We have already reached the point where patients' health has been endangered." Mr. Black noted that, "The rest of Europe sensibly just ignores the directive." For the same amount that the NHS will spend complying with the new regulation, it could employ 5,400 additional junior doctors.

Too much regulation can have a chilling effect on charities and voluntary groups too. In 1993 four teenagers drowned on a badly organised canoeing expedition in Lyme Bay, Dorset. The tragedy led to the creation of a sweeping new law and a licensing system for activity centres. About half of the 1,500 similar organisations operating in the early 1990s disappeared because they were unable to meet the stringent requirements. There is now a shortage of such facilities for eager children, arguably contributing to our spiralling childhood obesity rates.<sup>210</sup>

206 Ibid

207 *Improving outcomes from health and safety*, Better Regulation Executive August 2008, p.36

208 Institution of Occupational Safety and Health, Annual Report 2008–09: Developing People, p.7. The report notes that about 11 of its members are based outside the UK and around 5,000 are in the 'affiliate' category of membership and may not be practising as health and safety professionals. The estimate of UK-based consultants was given by Richard Jones, Chief Executive of IOSH, in oral evidence to the Work and Pensions Select Committee, 27th February 2008.

209 *UK Health and Safety Services: Commercial Due Diligence 2008 – A summary*, ARK Business Analysis Ltd

210 Rogers, L, *New Statesman*, 26th July 2007

Cathedral Camps was a charity that gave young people the chance to work on historic buildings. The camps were held at cathedrals and churches throughout the UK, where volunteers could help to clean and maintain these sites. Often this involved being strapped into harnesses and climbing ladders to work on church spires and towers.

As new health and safety regulations were implemented, Cathedral Camps volunteers found that their activities were increasingly restricted. Finally, the maintenance of towers and spires was restricted to professional steeplejacks only and volunteers were instead asked to carry out more mundane tasks in an effort to reduce the risk of accidents. Although no volunteers were ever injured in the Camps' 25 year history, insurance costs continued to escalate. In 2006, insurance costs were deemed to be so high as to preclude any further volunteer activities taking place. Cathedral Camps was disbanded in the same year.

#### A submissive society?

The cultural effect of health and safety often goes beyond the legislative requirements. Legal uncertainty, a culture of risk assessments, insurance advice, plus the growth in litigation all combine to make people risk averse. A natural conservatism, and the fear of being the person who gets blamed goes a long way to explaining why people play it safe and go over the top. As a result a compliant mentality has too often replaced common sense.

#### Conkers and goggles

- *Incident:* In 2009 the head teacher of Adlington Primary School, Polly Broadhurst, decided that pupils should wear goggles to play conkers.
- *Reason:* Miss Broadhurst insisted upon it "for health and safety fears", saying "it was a case of better safe than sorry".<sup>211</sup>
- *HSE response:* The HSE said that this action had been over the top and that the HSE had already produced a poster showing children playing conkers to combat the "myth" that health and safety had banned it.<sup>212</sup>

#### Trees earmarked for felling

- *Incident:* In 2004 South Tyneside District Council made plans to axe a large number of old horse chestnut trees and in the interim, chopped them back.
- *Reason:* The decision was made on health and safety grounds, due to a child falling out of a tree searching for conkers and after children threw sticks into the trees to bring the conkers down.

211 *Daily Telegraph*, 28th October 2009: [www.telegraph.co.uk/education/educationnews/6452480/Pupils-told-to-wear-goggles-to-play-conkers.html](http://www.telegraph.co.uk/education/educationnews/6452480/Pupils-told-to-wear-goggles-to-play-conkers.html)

212 HSE Myth of the Month, September 2007: [www.hse.gov.uk/myth/september.htm](http://www.hse.gov.uk/myth/september.htm)

- Council response: Cllr John Wood, the Mayor of South Tyneside, confirming the incident, said: “Obviously I realise they look quite bad the way they have been cut, but it’s a health and safety measure”.<sup>213</sup>

#### Sun cream ban

- *Incident*: A girl was banned from bringing and applying her sun cream in school in case someone else had an allergic reaction to it.
- *Reason*: As temperatures reached 26°C in 2003, Georgia Holt’s teachers at Seymour Road Primary School in Clayton, Greater Manchester, argued that due to the guidelines issued by Manchester City Council, it broke school rules to apply the cream in case it triggered allergic reactions in other children.<sup>214</sup>
- *Council response*: Manchester City Council confirmed that the school had “acted in accordance with health and safety guidelines”.<sup>215</sup>

#### Police and the Four Seasons Campaign

- *Incident*: Since October 2009 West Midlands Police have been rolling out a health and safety poster campaign, warning police about the dangers of inclement weather.<sup>216</sup>
- *Reason*: To highlight the risks of slips, trips and falls due to the slippery autumnal leaves, as well as sun in summer, snow in winter and rain in spring.
- *Police force response*: Andy Gilbert, chairman of West Midlands Police Federation, told *Police Review*: “While we welcome anything that enhances officer safety, there is a clear danger here of being patronising and stating the bleeding obvious”.<sup>217</sup>

## The war on red tape: why is red tape winning?

Since it was elected, the present Government has maintained that it has always been committed to fighting red tape. One of its first acts was to appoint a Better Regulation Taskforce. This has since been replaced by a Better Regulation Commission and Better Regulation Executive. Gordon Brown, in particular, has made regular announcements that he is to slash red tape. In 2005, for example, he wrote that the Government would henceforth be adopting a “risk-based approach” to regulation. There would be “no unjustifiable inspection, form-

213 BBC News Report, 22nd September 2004: [www.news.bbc.co.uk/1/hi/england/tyne/3679162.stm](http://www.news.bbc.co.uk/1/hi/england/tyne/3679162.stm)

214 *Daily Telegraph*, 19th June 2003: [www.telegraph.co.uk/news/uknews/1436539/Sunscreen-ban-at-school-for-girl-10.html](http://www.telegraph.co.uk/news/uknews/1436539/Sunscreen-ban-at-school-for-girl-10.html)

215 Ibid

216 Birmingham Mail, 31st October 2009: [www.birminghammail.net/news/top-stories/2009/10/31/police-s-health-and-safety-campaign-advice-on-slippery-leaves-is-absurd-97319-25054525/](http://www.birminghammail.net/news/top-stories/2009/10/31/police-s-health-and-safety-campaign-advice-on-slippery-leaves-is-absurd-97319-25054525/)

217 Tax Payers Alliance, 31st October 2009: [www.taxpayersalliance.com/media/2009/10/daily-mail-police-officers-warned-of-slippery-leaves-and-bright-sunshine-in-new-seasonal-safety-leaf.html](http://www.taxpayersalliance.com/media/2009/10/daily-mail-police-officers-warned-of-slippery-leaves-and-bright-sunshine-in-new-seasonal-safety-leaf.html)

filling or requirement for information". The Government would adopt "not just a light touch but a limited touch. Instead of routine regulation trying to cover all, the risk-based approach targets the necessary few".

The Government's state of permanent war against red tape, however, stands rather at odds with its record. In its first ten years in office the Government passed 26,849 pieces of legislation, continuing a steady upward trend in the creation of legislation traceable since 1979. Margaret Thatcher's Government passed an average of 1,724 new laws every year and John Major's Government 2,402.<sup>218</sup>

The war on red tape has failed to stop even the most absurd examples of over-regulation. The Gambling Act, for example, limited the value of soft toys which could be given away at fairgrounds from £8 to £5.

There are few encouraging signs. The Government says it has abolished 18 regulations saving business a total of £1.4 billion. But this is a drop in the ocean compared to the £150 billion worth of new regulation. And many of the Government's claims to have cut red tape are spurious anyway.

At the end of 2008, for example, the Better Regulation Executive, which is part of the Department for Business and Skills, claimed to have saved £1.9 billion – part of a programme which was eventually supposed to save £3.4 billion. On closer inspection the figure is revealed to be nonsense. For example, £100 million of these supposed savings had been made by extending the validity of the Energy Performance Certificates (EPCs) which residential landlords must obtain before letting residential property from one year to three.<sup>219</sup> Yet, the requirement for EPCs was only introduced in 2008. The Government was claiming to have saved businesses money by watering-down a regulation which it had itself just introduced.

This is not the first time that politicians have sworn to get a grip on red tape and failed. Michael Heseltine had promised a "bonfire" of controls 20 years earlier. Perhaps politicians might be more successful if we all had a better understanding of why we regulate in the first place.

## Why are we regulating?

There are all kinds of motives for regulation, and of course not all regulation is bad. Regulations are passed to improve safety, protect consumers, and safeguard

218 *Blair: 54% more laws every year than under Thatcher*, press release from legal information group Sweet and Maxwell, June 2007

219 *Making it Simple*, Better Regulation Executive, 2008

the environment. Laws are passed to try to make markets work better or break up monopolies.

Rather than pay to have something done, it might be more effective for the Government to simply require companies to do something, and leave it to the market to work out exactly how it should be done. Both have an economic cost – but leaving it to the private sector to implement might be more efficient.

But regulation has the disadvantage that the costs are less visible than tax. So it is easier for the Government to rack up huge costs to the economy without so much public attention. And all too often, politicians regulate for the wrong reasons.

Nor is it a simple matter of politicians passing laws and the rest of us implementing them. The overall burden of regulation is defined by an echo chamber of politicians, the media, insurers, the legal industry, regulators and agencies, standard setting bodies, consultants, international institutions and local authorities. Several of these groups might have a vested interest in risk-mongering. For example, a health and safety consultant employed by an organisation might have an incentive to be constantly active to show their value. Insurers might insist on the letter of the law being followed to pay out. Ambulance chasing lawyers will resist the idea that there can be any such thing as a no-fault accident. Sometimes all these elements come together.

For example in 2006 Gary Poll, a motorcyclist, collided with a fallen branch on a road in Somerset and made a claim against the landowners. The judge ruled that if arboriculturists had been called in, the accident could have been averted. As a result the British Standards Institution (BSI), which usually oversees building and engineering regulations, proposed a drive to make all trees which grow near public access areas subject to inspection. The British standard for tree safety inspection would require tree-owners to conduct an annual walk-by inspection and get them checked by a trained person every three years. Although the BSI's standards are not legally binding, a landowner that doesn't meet them could be vulnerable in a similar court case.

Rick Haythornthwaite, the chair of the Risk & Regulatory Advisory Council noted that

*"The draft standard has been put together by a rather narrow group of arboriculturists and tree surgeons who stand to gain from its adoption, while the potentially enormous costs would have to be met by tree owners. The risk from trees has not increased. We believe the existing legal principle effective for the last 60 years is sufficient. This is a perfect example of how the pressure to regulate in order to minimise public risk can lead to wholly undesirable outcomes if left unchallenged."*

The root cause of excessive regulation is often the misunderstanding of risk, or badly informed attitudes to risk.

The process by which irrational fears are echoed, amplified and used to inspire bad laws was lucidly explained in a report by the Government's own deregulation advocate, the Better Regulation Commission, in 2006:

1. The perception of a risk emerges. This can be progressive over time, such as the risks of obesity, or following a specific incident, such as the kayaking accident at Lyme Regis in 1993.
2. A public debate follows, often based around headlines and incomplete or biased information, resulting in a call for 'something to be done', which is amplified by the media.
3. Instinctively, the public looks to the Government to manage the risk.
4. Responding to this public pressure, the Government makes ambitious claims that it can solve the problem and steps in with a regulatory response, rarely considering the tradeoffs involved.
5. As a result, the role of the Government as risk manager is reinforced.
6. When the regulations are implemented, they inevitably fail to solve all the problems and also bring with them unintended consequences.
7. With good implementation, some hazards are prevented, but this does not make news. Other hazards are not prevented and problems persist, leading to calls for more Government action.
8. As a result of more regulation, people complain that liberties and enterprise are diminished and criticise the 'nanny state'.
9. Governments are blamed for interfering and acting unreasonably and, as a result, the national level of frustration shifts up a notch.
10. (If we are not careful), governments may seek to address issues of frustration and disengagement through more regulation.<sup>220</sup>

The commission proposed to break this cycle by instituting an independent, non-political Fast Assessment of Regulatory Options Panel which would advise the Government in response to calls for legislation. This was based on the thought that by the time ministers or officials have decided to regulate, it is often difficult to make regulation much better. The key is to think about alternatives to regulation at an early stage. With this in mind, the Commission also recommended training in risk management for ministers and civil servants.

## How to stop over-regulating

There have been many different reviews of the problem of over-regulation. Time and time they have come up with technocratic solutions designed to make regulators think twice: “sunset clauses” which cause regulations to automatically expire if they are not renewed; “one in, one out” rules whereby departments have to delete an old regulation whenever they propose a new one; “regulatory budgets” which would allow government departments only to impose a certain amount of cost each year through regulation.

All of these are sensible – but ultimately government has to want to regulate less than it has done in the past. We need to check the fundamental reasons for over-regulation.

### 1. Don't over-react to risk

The most dangerous words in politics are “we must never allow this to happen again”. It is invariably the prelude to a mass of ill-thought out legislation which creates inconvenience for a great number of people, traps innocents and yet fails to end the problem it is purporting to solve.

The new laws requiring registration by anyone who comes into contact with children through their work or voluntary activity are a case in point. The rules were inspired by the Soham murders of 2002, in which two 10 year old girls were killed by a school caretaker who had previously been suspected though not convicted of sexual offences. From 2010 more than nine million teachers, doctors, nurses, medical students, scout volunteers, parents who offer to help with children's reading in schools and many others will be required to undertake a check with the newly created Independent Safeguarding Authority (ISA). When it receives an application the authority will check it against mountains of data held on individuals. This will include not just details of convictions but any information, for example, on concerns which have been raised about a teacher by colleagues.

The new regime will impose a heavy cost on millions of low-paid workers – it will cost £64 for a check. Moreover, it will create new offences. Individuals who fail to undertake checks face fines of up to £5,000 and sports clubs which fail to insist on checks could be fined up to £10,000. It stands to reason that the scheme will deter volunteers, with a knock-on effect for children's activities. The consequences will be especially severe in deprived areas where activities and mentoring have been shown to have a strong influence on youths who might otherwise be attracted to crime. The scheme threatens to cause injustice – the database held by the Independent Safeguarding Authority

will include unsubstantiated rumour and malevolent accusations. Moreover, the scheme will do nothing whatsoever to prevent first-time offenders, on whom there will naturally be no data. In fact the checks may even have the effect of introducing complacency in schools and the like – institutions may lower their guard if they know that their staff all have clear records.

The existence of the ISA would not even prevent another Soham. Although Huntley had accusations of sex offences on his record he did not actually come into contact with his victims through his work. They were at a different school; it was only that Huntley's girlfriend Maxine Carr was a teaching assistant in their class that led them to knock on his door. Neither can the existence of the ISA provide any guard against first-time offenders. It would have done nothing, for example, to halt the activities of Vanessa George, the Plymouth nursery worker jailed indefinitely in 2009 for abusing children in her care and providing photographs to a paedophile ring.

## 2. Don't panic

Too much modern legislation is inspired by emotion rather than by means of cool analysis of a problem. It comes about as a panic response to an issue which has been passed through the echo chamber of media, politics and public opinion, and amplified out of all proportion. As an example of how popular issues develop, the journalist Nick Davies analysed the evolution of the moral panic over sex trafficking. It began with a pair of academics scouring the media and police records for 71 reports of women trafficked into the UK – a figure which included women who, under a loose definition of trafficking, had travelled to Britain of their own free will. The academics came up with a wild guesstimate that the number of women actually trafficked into UK might be 40 times this figure, i.e. 1,420.

A couple of years later the Home Office decided to make its own estimate, for which it made dubious assumptions, such as that every single woman working in Soho flats must be there against her will. It produced a figure of 3,812. This was rounded up by Home Office minister Vernon Coaker to 4,000, whereupon it was picked up by an anti-slavery pressure group as “a very conservative estimate”. The 4,000 figure was then mysteriously pumped up into a *Daily Mirror* headline claiming that 25,000 women had been trafficked into the UK. This was then taken up by Home Office minister Denis McShane who claimed there were 25,000 “sex slaves” working in Britain. Another MP on the Government's backbenches declared that there was “sex trafficking in towns and villages through the land”.<sup>221</sup>

221 *The Guardian*, 20th October 2009

Every time the estimate was inflated, the louder became the clamour for a crackdown not just on the traffickers but on prostitution in general. This eventually manifested itself in the Policing and Crime Bill, which makes it an offence for a man to pay for sex knowingly or unknowingly with a prostitute who is 'controlled for gain' – in spite of warnings that it will drive women to take the more dangerous path of working alone and worries by the police that the new law will be unworkable.<sup>222</sup> Meanwhile, a six month police investigation involving raids on hundreds of brothels failed to discover a single trafficker.

### 3. Make it harder to legislate so much

Disturbingly, 98% of laws passed since 1997 have come in the form of secondary legislation. Most of these come in the form of statutory instruments, which are amendments to existing acts and which do not require full debate or a vote in Parliament. Among the laws introduced via statutory instruments in recent years include new rules requiring phone companies of every telephone call made and make these available to a variety of law-enforcement agencies, the law allowing police to keep the DNA of innocent people for up to 12 years and the law bringing in the 'victims' surcharge' on anyone handed a fine in a magistrates' court.

There is sometimes a need to pass statutes quickly, and a great number of statutory instruments pertain to obscure local issues of little controversy. But there needs to be a stronger system of protection against the passage of oppressive legislation by this back door method. Theoretically there is a procedure by which Parliament can debate upon and vote upon a statutory instrument. Most statutory instruments are subject to a 'negative resolution' procedure. Any member of the Commons or Lords has 40 days in which to table an annulment motion. In practice, however, such motions hardly ever get debated. The last statutory instrument successfully challenged in the Lords were the Greater London Authority Elections Rules in 2000. No statutory instrument has successfully been challenged in the Commons in 30 years – the last being the Paraffin (Maximum prices) (revocation) Order 1979.

It is wrong that our elected representatives should be bypassed. It is not enough for the Government to argue that it consults with interested parties before introducing laws by the back door. All statutory instruments should be subject to the alternative, positive resolution procedure, which requires them

to be voted upon in both houses. If it slows down the passage of legislation through Parliament that would be no bad thing.

#### 4. Deal with European regulation

According to the Government's own impact assessments, nearly three quarters of the cost of new regulations since 1998 is the result of European, rather than British, legislation.

The European Union is prone to over-regulation for the same sorts of reasons that national governments are – but is even more prone to over-regulation for a number of reasons. The European Union is a prime target for lobbying by vested interests – as one regulation is passed in Brussels can change the law in 27 countries. Many people working for the EU institutions are keen to show that the Union is being “active” and doing things for people – and as an institution it has a tendency to involve itself in ever more areas. And the culture of government in the EU is generally more statist and receptive to regulation than most British governments are.

At present European legislation floods through the House of Commons with almost no scrutiny. The EU produces roughly four pieces of secondary legislation a week, (regardless of whether MPs are sitting) and a host of other documentation. Even on the rare occasions when the European Scrutiny Committee asks the Government not to sign up to a new EU law until it has had a chance to look at it, the Government often uses the “scrutiny override” and goes ahead anyway. The Government is using this override more and more – at least once or twice every week.

Other member states' parliaments take a much more assertive approach. An interesting comparison is the Danish Parliament. Denmark joined the European Economic Community at the same time as Britain, but, from the start, Danish MPs kept a tight grip on what their Government could agree to in Brussels. Indeed, the Danish Government has to get a “mandate” from the European committee of the Danish Parliament before it can sign up to any EU proposal. The more recent EU member countries – Sweden, Finland and several new Eastern European members – have also set up Danish-style systems, with greater power for their parliaments to stop regulation.

To get a grip, MPs should have a weekly “question time” with the UK's Permanent Representative to the EU – a powerful civil servant who is at the heart of negotiations with other member states. This would give MPs a better idea about upcoming EU proposals at an early stage so they can get involved early on, and have a better idea of what position our Government and other governments are taking.

### 5. It is not just regulation, it is the way it is enforced

Some of the silliest “laws” commonly quoted by the public are not really laws at all. There is no regulation, for example, which demands manufacturers of peanuts inscribe on the packet the words “may contain nuts”. Neither is there any law preventing the playing of conkers in schools or banning teachers from applying sun cream onto pupils’ arms. These rules, like many others which crop up in the press frequently, are the result of local decisions by councils, head teachers and, in the case of the peanuts, manufacturers and supermarkets. The anti-risk culture does not just affect the government but has engrained itself in many public and private bodies too. The rise of no win, no fee agreements has been especially damaging, resulting in a climate of fear among those officials who have to manage risk.

In 2005, traces of a banned food dye Sudan 1 were found in Worcester sauce manufactured by Premier Foods. The dye has been identified in the laboratory as having carcinogenic properties, yet the quantities involved were too tiny to be of any risk to anyone. Yet the Food Standards Agency issued the risk-averse guidance: “Sudan 1 can contribute to an increased risk of cancer” and that it would be “sensible to avoid eating” any food containing traces of the sauce. The warning led to a mass recall of food, costing the company £100 million.<sup>223</sup> The New Zealand Food Standards Agency, by contrast, put out a statement announcing the risk to be “so small as to be immeasurable” and assuring consumers there was no reason to be concerned.

Better training should be given to officials who are responsible for issuing guidance on issues of health and safety. They need to be made better aware of the effect of their words on public consciousness and how their pronouncements are likely to be used – and sometimes distorted – by the media.

All public officials need to be better educated in risk management, and need to be better protected against claims for compensation. Part 1 of the Compensation Act 2006 offers some protection for schools and teachers who are prosecuted if children in their care are injured while undertaking activities they have organised. Courts are now instructed to consider the wider implications of a compensation award: whether it would in future discourage other schools from organising such activities. This approach should be used more often when framing legislation. Really getting a handle on this problem will require a serious look at the insurance industry, and the no-win, no-fee compensation industry.

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223 *Risk, Responsibility and Regulation: Whose Risk is it anyway?* Better Regulation Commission, 2006

## Litigation, Regulation and Risk

- An injured commuter called Brian Piccolo sued for £1.5 million in compensation after he slipped on a stray petal outside a florist's shop at Marylebone Station. The High Court ruled the shop was negligent in failing to have a "reasonably effective and safe system for dealing with the danger of fallen petals".
- In April 2007, a primary school teacher was awarded £12,958 out of court after falling off a toilet seat. The woman dislocated her hip after toppling off the bowl, intended for use only by children under the age of 11.
- In 1999, a family in Upper Mayfield, Derbyshire, sued the people who had sold them a 250-year-old cottage because, they said, the sellers failed to disclose that it was haunted. A county court judge threw out the claim.
- A man won a £200 claim against a doctor he said had given him a cold. Trevor Perry, who got the sniffles after seeing Helen Young for a check-up, said she must have made him ill, as he'd not been in contact with anyone else. A judge reversed the verdict in 2002.
- A deputy head teacher in Bristol sued her former school for £1 million after it failed to replace a chair that made flatulent noises whenever she moved. Sue Storer, 48, claimed it was a "regular joke", part of a catalogue of sexist behaviour that had undermined her position. She lost her case in 2006.<sup>224</sup>

## Complicating tax

A huge amount of red tape relates to the tax system. At 8,300 pages Britain has the second highest amount of tax legislation in the world.<sup>225</sup> The burden on the economy of this needless complexity is huge. According to KPMG in 2006 the administration of tax law was costing the economy £5.1 billion a year. It is not just businesses who have to pay: individuals are paying £1.25 billion a year to comply with tax law. One of Gordon Brown's changes to taxation laws stands out as being beyond satire: the new rules to "simplify" pensions, introduced in April 2006. The manual explaining the changes ran to 1,369 pages.

The tax system is the product of political demands as much as fiscal ones. In 1997 the new Government committed itself to not raising the basic and upper rates of income tax. Making this promise, however, did not dim its appetite for raising revenue. The result was so-called stealth taxes that were supposed to create ever more ingenious ways of taxing us, in the vain hope that we would not notice what was happening.

<sup>224</sup> Lois Rogers, *New Statesman*, 26th July 2007

<sup>225</sup> *Paying Taxes: the Global Picture*, World Bank and PricewaterhouseCoopers

Stealth taxes, however, are complex taxes, expensive to collect, both for the authority charged with collecting them and the businesses and individuals who must pay them. Increasing the basic rate of income tax by a penny, or the car tax by five pence costs very little: the infrastructure for collecting the tax already exists. Introduce a new tax like the London Congestion Charge, on the other hand, and the costs are considerable: it involved, for example, establishing a bureaucracy and call centre in Coventry. At one point in its first year the congestion charge was actually costing more to collect than it was raising – entirely defeating one of its stated purposes: to raise extra money for public transport in London. The most recent figures show that two thirds of all the money that is taken from the public is absorbed by the cost of running the system.

The tax system is now an incoherent mess, with contradictory policies building up over the years. Some of them, for example, are pro-car (there is an exemption for car parking at or near a workplace), others are anti-car (there are exemptions for free meals on cycle to work days, cyclists' safety equipment and relief for a work's bus). Some favour well-off workers (presumably people in the City benefit most from the late night taxi relief), while others favour different groups (some trade union investments are exempt from income tax). This bizarrely complex system is not only expensive to administer, but unfair, as it favours those who can pay for the expertise to play the system.

Over the next few years the public finances are likely to be in such a poor state that there are going to be few opportunities for reducing taxes. But the burden of taxation can be reduced considerably through tax simplification. No new tax should be introduced without a thorough assessment of the compliance costs which it will impose upon individuals and businesses. Every existing tax, too, should be subjected to this analysis. Taxes which impose unrealistic demands on the payer should be dropped.

Britain should work towards a simpler tax system where rates of tax are reduced by the elimination of complex allowances and exemptions. For the taxpayers, if not the Treasury, every penny spent complying with a tax regime is as good as another penny on tax.

**Action points**

- We should implement various technical measures to make policy makers think twice before regulating. But this will only get us so far. Policy makers need to be less reactive, and communicate with the public in an adult way about risk.
- We should make it harder to regulate so much by reforming the statutory instrument process.
- Parliament should have Danish-style powers to control European regulation.
- Public officials need to be better educated in risk management, and need to be better protected against claims for compensation.
- We should work towards a simpler tax system. All tax rules should be subject to an audit of how much they cost in compliance.

## 14

## A More Open Planning System

No one likes it when prices go up. Nobody cheers because their loaf of bread is more expensive or their gas bill is higher. But for years the media and a chunk of the population have cheered on rising house prices. It's little surprise that between 1995 and 2009 house prices rose in real terms by 120% – even after accounting for the post 2007 crash.

The ratio of median house prices to median income rose from 3.5 in 1997 to 6.9 in 2008. In other words, it is getting difficult for the average person to afford the average house. As a result, home ownership rates have dropped, for the first time since at least 1918.

Spiralling house prices, caused by restrictions on supply, are unfair in many ways. Rising prices benefit older and richer people at the expense of younger and poorer people. By 2004 the average age of a first-time buyer was 34, while in 2009 90% of them received family help. Housing has become divided into the haves and the have-nots.

The effect of ever more expensive housing is felt most keenly by those at the bottom of the pile. Between 1981 and 1997 house prices barely rose in real terms, reducing demand for social housing. During this period waiting lists fell from 1.2 million to 1 million. Between 1997 and 2008 house prices doubled in real terms, increasing demand for social housing. During this period waiting lists rose by almost 800,000 to 1.77 million.

The problem is that the benefits of not building are concentrated and visible, while the huge costs are dispersed. But they are still there. Nearly half the cost of a new house in the south east is due to the value of the land.

What we need now is a housing policy based on increasing affordability – by increasing the supply of housing.

## What happened to housing?

The 1945 general election was partially fought over which party could build homes the fastest. By 2001 both of the main political parties appeared to be vying with each other as to which party could prevent the greatest number of homes being built. The Conservatives promised to abolish local authorities' house-building targets so as to ensure that councils in the home counties would be under less pressure to build in rural areas. Labour, on the other hand, reacted to charges that it was destroying the countryside by setting targets for house building which ensured a big switch from low-density suburban housing to high-density housing in existing urban areas. Homes were to be built at increased densities of between 20 and 50 units per hectare, and 60% of new properties were to be built on brownfield sites.

The Government excelled at fulfilling its target. By 2008 79% of new dwellings were being built on previously developed land. Residential development was taking place at an average of 44 units per hectare – up from 25 units in 2001. Sadly, it was a meaningless achievement. Planning policy did little to save the countryside from ugly development. The Government set no corresponding targets for commercial development, so more factories, office and retail parks were built at low densities and on greenfield land. As a result, councils were encouraged to hit their housing targets by recycling land through the planning system. Factories, shops, schools, motor dealerships and many other commercial premises were enticed to relocate to greenfield locations so that their sites could be used for housing. Between 2000 and 2006 31,970 hectares of agricultural land were lost to development – not a great deal less than the 34,918 hectares lost between 1991 and 1997.<sup>226</sup>

What the Government's planning policies have achieved, however, was to restrict house-building so as to fuel house price inflation, slowing down social and labour mobility. The planning system created a dearth of the sort of homes people want to buy – a direct attack on living standards.

## Squeezing us in

Between 2003–04 and 2007–08 the number of residential property “starts” averaged 220,578 a year – compared with an average of 194,140 a year between 1993–94 and 1997–98. But this small increase didn't keep up with international migration, which went up from 40,000 a year in the period 1991–97 to 180,000 in the years since then.

Official statistics do not show up an absolute “shortage” of homes – there are 21.1 million households in England and 21.6 million dwellings. Compared with 1971 when the excess of dwellings over households stood at 200,000 and 1951 when there were 700,000 more households than houses, things don’t look so bad.

What the statistics do not show, however, is the number of frustrated would-be home-owners still living with their parents in their 20s and 30s who would love to form their own households if only they could afford to do so. Instead of responding to the problem with more house-building Secretary of State for Business, Innovation and Skills, Lord Mandelson, published a guide in January 2010, *Parent Motivators*, encouraging parents to entice their grown-up children out of the family home.

The Government’s housing policy has starved the housing market of the sort of homes that people wish to buy. The housing crash of 2007 to 2009 has exposed a significant problem: a huge surfeit of one and two bedroom luxury flats in the centres of provincial cities with few buyers. The young, professional couples and singles who were expected to buy such properties have remained elusive: it has become clear that the flats were used more as instruments of speculation.

In 1996–97 30% of new homes were houses with four bedrooms or more and 12% were one and two bedroom flats. By 2008–09 the corresponding figures had flipped around, and were 21% and 45% respectively. Britain has some of the smallest new homes in the developed world: the average new home measures 76 square metres, compared with 109 square metres in Germany and 205 square metres in Australia. The Government’s rationale for switching development to smaller housing units – that growing numbers of people are living alone – has been proved grossly misguided. Many one and two-person households continue to purchase substantial houses because they wish to have space to work, carry out hobbies and to entertain. A poll conducted by MORI for the Commission for Architecture and the Built Environment in 2002 demonstrated just how far out of kilter are planning policy and the desires of home-owners. 30% said they would ideally like to live in a bungalow, 29% in a village house, 16% in a Victorian terrace and 14% in a modern semi. Just 2% named a modern loft apartment as their ideal home.

The Government’s density targets have led to a lessening of the quality of the urban environment. Another perverse result of the brownfield target is the development of “garden-grabbing”, where developers seek to build residential property in the gardens of existing homes. Gardens, bizarrely, have been

classified by the government as “brownfield” land when in many cases they are far richer in wildlife than the agricultural land which the Government seeks to preserve – a German study revealed that agricultural areas surrounding Munich had only 10% of the species found in suburban areas of the city.<sup>227</sup> By 2020, estimates Defra, 2.6 million dwellings in England will have no garden. There is little to suggest that this will happen because homeowners do not wish to have one. It represents, rather, a diminution in living standards created by the planning system.

Planning remains the last bastion of the postwar command economy in Britain. It is failing in its attempts to “predict and provide”. It is costing the economy a fortune and encourages corruption. Yet it has failed to stem the ugly development it was instigated to prevent.

## Planning: stuck in the 1940s

The concept of town planning – where an authority directs urban development rather than leaving it to the demands of individual developers – dates back to the model industrial villages of the early 19th century. It was later taken up by the garden city movement of the late 19th century. One of its pioneers, Ebenezer Howard, advocated reorganising Britain into settlements of around 30,000 – large enough, he argued, to overcome the economic and social stupor of the countryside yet small enough to escape from the environmental problems associated with cities. Letchworth Garden City in Hertfordshire, built from 1902 onwards, remains a monument to his ideas.

But it was not until 1944, with the Greater London Plan, and the Town and Country Planning Act 1947 that town planning came officially to exist in Britain. The slum clearance and rehousing programmes necessitated by the Second World War were planned along lines remarkably close to those advocated by Howard. Displaced Londoners were to be housed in a ring of new towns between 20 and 40 miles from the centre of London, separated from the metropolis by a green belt. The boundaries of London itself were to be set by the designation of a green belt. Away from London, further stretches of countryside were to be preserved by the designation of national parks, areas of outstanding natural beauty and by a general presumption against building in the open countryside.

Sixty-five years on, planning policy in Britain retains many of the principles contained within the 1947 Town and Country Planning Act. The job of

227 Reichholf, Josef H, *Der Okokolonialismus Europas*, 2004

deciding what and how much should be built, and where it should be built, remains in the hands of state planners. Anyone wanting to develop land must attempt to fit in with the vision created by planners. Even the plans themselves remain unchanged: thanks to its green belt, the urban edge of London remains frozen where it happened to be upon the declaration of war in 1939 – in spite of the huge change in the economy since.

The planning system is an anachronism, yet there remains considerable support for it. In spite of the Conservative party's generally liberal position on markets, its local authorities have been the keenest to exercise their right to block development. The system has evolved to serve not the economy or the country as a whole but the vested interests of those who trade or speculate in property and those who wish to preserve the rural outlook from their homes. But there is a growing constituency of those whose interests it does not serve: young people who despite having good jobs are unable to afford their own home; businesses which want to expand but are constrained from doing so; consumers who are paying the price of planning costs and delays. It is time that their interests were better served.

## What price a green belt?

A system for controlling development is inevitable in an industrial economy. Disregarding the limited potential of land reclamation from the sea, land is a finite resource whose use needs to be managed in order to minimise pollution and maximise the efficient use of infrastructure. Good planning can reduce urban decay and save treasured landscapes from development, which may be hard to quantify in economic terms but which few would dispute are desirable aims.

It is rarely acknowledged, however, that the planning system also imposes huge costs on the economy. This is most obviously seen through inflation in the price of development land. An acre of agricultural land in the South East of England typically costs around £5,000 an acre. Should it be granted planning permission for residential or retail development, that price can easily rise to £1 million or more – thanks to the scarcity of development land. The cost of the land feeds through to the cost of housing and commercial development: up to half the cost of a new home in the South East is now accounted for by the price of the land. Thanks to this artificially created shortage, house price inflation between 1970 and 2006 outstripped that in any other developed nation – rising by 3.5 times in real terms.<sup>228</sup>

Planning policy has been used by all postwar governments as a means of stimulating regional development. The scarcity and high price of development land forces people and businesses away from London and the South East and – so the Government hopes – attracts them, with the help of a few incentives here and there, to relocate to less prosperous parts of the country. There is a cost associated with this – and a cost which is growing. For an increasing number of businesses the choice does not lie between locating themselves in London or Gateshead but between London and Frankfurt or San Francisco. A planning system that is too dogmatic in attempting to even out prosperity between the regions risks impoverishing the country as a whole.

Poor planning also places a cost upon infrastructure, not least in the longer journeys that employees must make to work. The practice of locating new housing well away from London has led to an enormous growth in long-distance commuting. Much of the new housing for the London region, for example, has been allocated to Ashford, Kent, 55 miles from the capital and Corby, Northamptonshire, 70 miles from the capital. The traffic generated by commuters having to cross the green belt to get to work compromises the very countryside which the green belt policy was instigated in order to preserve. Moreover, there is a large cost in lost productivity caused by the need to travel such distances: three hours spent travelling to work and back is three hours' less work-time or leisure-time.

There is another hidden cost to the economy imposed by the anti-competitive practices which the planning system enables. It has become common practice among large retail stores to use restrictive covenants in order to prevent rivals opening stores. Because development land is so scarce it is possible for a retail chain to buy all potential development land in a given area and effectively bar rivals from what it regards as its patch. This issue needs to be addressed: if we are going to restrict development to planned zones, it must not be possible for anyone to place restrictive covenants on land within them.

Finally, there is the cost imposed by delays in the planning system, many of them needless. In one case reported by the CBI a company won permission from the local planning authority for a £25 million development. But the application was then "called in" by the Secretary of State for the Environment – who has a right to over-rule local planners when a planning decision is at odds with a local authority's published planning policy. It was another two years before the Secretary of State made his decision. The final bill to the applicant was £500,000 in direct costs associated with

pursuing the application plus another £800,000 in lost business caused by the two year delay.<sup>229</sup>

The decision to build Heathrow's Terminal Five was preceded by a four-year long public inquiry which alone cost £64 million. It was another two years before the Government made the final decision. The Planning Act 2008 was passed partly in response to the Terminal Five saga. From 2011, the decision regarding infrastructure projects of national importance will be in the hands of a new Infrastructure Planning Commission (IPC), which will be expected to make its decisions in accordance with a set of National Policy Statements. It is logical that the planning process for large infrastructure projects should begin at national rather than local level, as it does at present. But the most significant change is that in future the final decision will be in the hands of an unelected quango rather than a government minister. It is easy to see how it might suit the government not to have to take responsibility for an unpopular airport or motorway affecting marginal constituencies; it is harder to see how the public will be served by this erosion of democracy. Surely the decision of where to build an international airport is a proper function of an elected government.

### One rule for one . . .

The Planning Act 2008 will make it harder for local residents to complain about infrastructure projects: one clause will prevent them complaining about the construction process on the grounds of nuisance. Yet the act will do little to reduce bureaucracy for homeowners wanting to develop their properties. Residents living, say, near the site of a proposed international airport will still have to seek planning permission in order to place a dormer window in the front of their house.

The planning system is undermined by the iniquities which it throws up. On the one hand it can be astonishingly pernickety. Devon farmer Robert Burroughs spent £40,000 making safe a derelict cottage on his farm – only to be ordered by East Devon district council to return it to its dilapidated state – on the grounds that a dilapidated cottage was part of the character of the area.<sup>230</sup> There is a model village in Buckinghamshire, Bekonscot, which has to apply for detailed planning permission every time it wishes to erect a new model building, one-fifteenth to the scale of the original.

229 Infrastructure Group, CBI, evidence to the Office of the Deputy Prime Minister select committee, 2002

230 *Daily Telegraph*, 25th August 2009

But in other cases it can be remarkably tolerant. While beauty is of course in the eye of the beholder, few eyes have detected beauty in Britain's new towns nor in many of the thousands of housing estates which the planning system has processed. The planning system has been perverted in order to promote diversity. A Norfolk farmer was refused planning permission to place a single caravan in a field to provide shelter for workers. But when he sold, the purchaser won permission to place six mobile homes on the site, an exception being made on the grounds that he was of Romany gipsy stock and, although he lived in a nearby bungalow, he fancied reconnecting with his roots.<sup>231</sup>

Considering the number of planners employed in central and local government, and the amount of paperwork involved, some of the decisions which come out of these bodies are astonishingly bad. In 2008–09, in spite of serious floods the previous summer and the Government's constant warnings of climate change, 9% of new dwellings in England were built in areas of high flood risk. It is the same in Tewkesbury, Lewes or many of the other towns flooded in recent years: many of the homes affected had been built in recent years, and data on flood risk was readily available.

Similarly, it has become common practice to place new housing developments within yards of motorways and bypasses in spite of evidence of the effect of traffic pollution on human health, especially that of children.<sup>232</sup> The desire of planners to contain urban areas within a well-defined boundary seems to over-ride consideration for the health of residents.

## Incentives to allow development, not targets

At present we have a tight planning system, and local authorities have little incentive to allow development. The Government tries to get round this problem by imposing central targets for house building. This is absurd.

First, the targets for housing density and brownfield development should be dropped. They encourage the wrong sort of property to be built. Moreover, they are a nonsense when there are no corresponding targets for commercial development. The redevelopment of disused brownfield land should – in cases where the polluter has long since gone out of business or cannot be traced – be encouraged by a cross-subsidy from greenfield development. Local authorities should be allowed to levy taxes on greenfield development sites and to spend the money on the remediation of contaminated brownfield land, in order that

<sup>231</sup> *Daily Mail*, 18th August 2009

<sup>232</sup> *Effects of Air Pollution on Children's Health and Development*, WHO 2005

it be available for development sooner. In spite of the Government's targets, many of the most polluted brownfield sites remain undeveloped because developers do not wish to bear the costs of remediating the land.

At present local authorities can capture only a little of the "planning gain" – the value created when planning permission is given on a piece of land. At present developers agree to provide or pay for certain pieces of infrastructure in return for being granted planning permission. This takes place through Section 106 of the Town and Country Planning Act. For example, a builder might agree to build the council a dozen social houses in return for being allowed to develop a site.

This is a clunky and arbitrary way to capture the planning gain. It is like a primitive barter economy in which every transaction must be haggled over. Because it lacks transparency, it has obvious potential for corruption. It also leads to absurd outcomes. One homeowner in Suffolk who wanted to convert a cellar to create a granny annex for his elderly mother was bewildered to be asked for a contribution towards the provision of children's play areas.

Section 106 should be replaced by a clear, transparent cash price – a Social Cost Tariff. And if new housing is built, then local authorities should be allowed to bank the extra council tax these new households will pay. At present the extra money is whisked away by Whitehall. Instead, for a number of years after new development takes place, the local council should be able to keep the benefit.

These two sources of cash would help pay for the new roads, schools and doctors surgeries which will be required to service the extra population. At present if local authorities allow housing development they face these extra costs but without the extra cash to offset them.

Obviously the exact figure would have to be flexible to take account of regional differences in prices. But in terms of orders of magnitude, given the huge increase in value when planning permission is granted, a level of £500,000 per hectare of greenfield land might be a starting point for a Social Cost Tariff in the south east.

We could also smooth out the changes in the value of the land when planning permission is granted. At present, the value of land can be increased a hundred-fold or more at one stroke of a planner's pen. This encourages speculation on the part of developers, accompanied by well-funded lobbying. Not all of it is legal. In one case a Conservative councillor was jailed after redrawing the route of a bypass in order to enable development of land which he owned. The sharp uplift in the value of land approved for development

could be reduced if the planning system identified land for development at a much earlier stage. If planners, for example, were to designate land for housing development five or ten years in advance, the value of the land would increase steadily as the time for development approached, not yield an instant and massive windfall. To some extent this happens at present, but fails because planners ignore changes in the market or changes in circumstances.

## Reversing the onus of the planning system

The Government has made an attempt to speed up planning decisions, but not one that has been effective. In 2003 it set local authorities a target of deciding 60% of applications for large housing developments within 13 weeks. As with so many targets, it has had perverse results, putting further constraints on development. In 2008 the National Audit Office reported that councils were making 98% of rejections within 13 weeks – but only 49% of approvals.<sup>233</sup> In other words, they had been given an incentive to reject developments quickly in order to meet their targets. As for the developments which they were minded to accept, these were taking even longer to process than they were before. Once the 13-week deadline had passed councils had no further incentive to act quickly – applications which failed to be decided within the deadline took an average of a further 27.6 weeks to decide.

If we are to continue with this system it might be better to make the target – which is linked to funding – relate to the number of *approvals* rather than the number of decisions.

There is a far better way to speed up planning decisions and ensure every decision is made within 13 weeks: turn the planning system around so that the onus is on the planning authority to raise an objection to a development. Developers should gain permission for development not by submitting an application but giving notification that they intend to proceed. The planning authority would then have 13 weeks to raise an objection and prove why the development should not be allowed. If they failed to do so then the developer would be free to go ahead.

In most cases, planning permission would become a formality. So long as developers planned in accordance with published planning policy, observing development zones and restrictions over height etc, there would be few grounds on which the planning authority could object. In areas zoned for industrial development there is little point in subjecting proposals to the

233 BBC News, 17th December 2008

normal planning processes, which are heavily weighted towards aesthetic considerations. So long as developments do not exceed limits on pollution and do not overload the infrastructure, they should be allowed to proceed.

## Development zones

While the biggest single thing that needs changing is the creation of incentives to allow development, there are other ways to reduce the cost of planning.

In some areas like ports there are already exemptions from planning law. Once an area has been designated as a port, the owners of the site can build what they like. This is crucial, as ports have to be able to build new facilities quickly to respond to demand. If they, like the rest of the country, had to wade through years of planning inquiries, it would be almost impossible for them to do business, and the cost of cramming goods through bottlenecks at our ports would become incredibly high.

This idea should be taken further. In some areas it is absurd that normal planning law applies. For example, in a strip of former heavy industry with a power station, incinerator and ship breaking yard, it seems a bit churlish to impose aesthetic considerations.

We should create a series of simplified planning zones which industries and businesses could be allowed to expand without submitting detailed planning applications. This will cut delays and stimulate economic growth in areas zoned for industry where aesthetic concerns are of lesser importance.

## Reform zoning to allow growth

The planning system should not be used to try to redirect development to different parts of the country. This policy has been a complete failure. For good reasons of economic geography companies and people have been gravitating to the south east and central locations on the motorway network. We should allow the market to allocate land more sensibly.

At present, local councils ignore market signals and zone land for industrial rather than residential use. There are over 2,500 hectares of industrial land in London alone, and 10,000 hectares in London and the South East together. If only half of it were used for housing, it would create £25 billion in value and allow half a million people to move to an area that offers them great prospects. Such a market-led policy would prompt many industrial firms that are based in London to relocate to where land is cheaper.

As well as re-zoning this land we should look at how zoning laws are applied across the rest of the country. In the rest of the country we should unpick the complicated restrictions on change of use. The Use Classes Order dates from the era of the 1947 Town and Country Planning Act – and reflects 1940s preoccupations with the dispersal of population and industry. It required owners to gain planning permission all over again if they would like to change the use of a building, say from industry to offices, or from offices to housing.

During the 1980s the problems with this system became painfully apparent, as large formerly industrial areas of cities were left in a derelict state. The then Secretary of State, Nicholas Ridley, allowed greater freedom to turn industrial properties into offices. This ended a long running undersupply of office space, brought down the relative price of offices and helped to regenerate the inner cities. Today we should also consider making it easier to turn office space into housing.

Ironically, the “planning” system has been good at deterring growth but not been good at allowing rational planning for growth. It makes sense to think seriously about planning new development in the South East. Instead of piecemeal development wherever it can be squeezed through the system, it would be better to join up the planning of transport, infrastructure and housing building.

## New new towns?

“New towns” have had associations in Britain. In the 1950s and 1960s people were shipped out of slums and into social housing and experimental concrete towns designed and run by state planners. They often reflected naïve economic underpinnings, and the worst styles of the time. Even the more successful cities like Milton Keynes have fragmented centres dominated by roads.

But some planned towns – like Letchworth, Welwyn Garden City or even Prince Charles’s traditionally-built Poundbury – are green, pricey to live in and well liked by their inhabitants. All over the world there are successful planned cities.

Planning to release large tracts of land for development in the South East would raise huge amounts of revenue. It would pay for the construction of good transport links into London, thus increasing the value of the land released still further. Developing a large area rather than dribs and drabs of land would allow the creation of pleasant, green communities.

When the site for a new town has been identified the land should be bought by a development corporation for, say, twice its current – in most cases agricultural – value.

The land – with planning permission – could then be sold to various developers for a much higher value. The development corporation could then use the difference to finance the construction of economic and social infrastructure.

Enabling development in places people actually want to live would unleash a huge amount of economic activity – all generating revenue for the Government through income tax, corporation tax and stamp duty. Developing a number of reasonably sized sites, run on clear commercial principles, could raise tens of billions for our cash-strapped Government, create jobs and allow hundreds of thousands to move to areas with good prospects.

### **Action points**

- Abolish central house building and density targets.
- Replace Section 106 Agreements with a transparent and easy to use Social Cost Tariff.
- Create financial incentives, instead of disincentives, for local authorities to allow development.
- Reform targets for planning departments so they incentivise development, not rapid refusal.
- Rezone former industrial land in the South East for housing development
- Change zoning laws to make change of use easier.
- Identify industrial zones where planning law is not appropriate and abolish restrictions.
- Create new Development Corporations to promote a number of large planned developments in the areas of high demand.

## 15

## A More Rational Energy and Environmental Policy

In 2007, a few months after the Department for the Environment, Food and Rural Affairs (Defra) put out a television advert urging us all to tackle climate change by not leaving our televisions on standby, Tony Blair was interviewed on Sky TV about his own contribution towards cutting carbon emissions. Asked how his latest long haul flight, for a midwinter break in Barbados, fitted in with his Government's increasingly grim prophesies on climate change he replied bluntly: "I would, frankly, be reluctant to give up my holidays abroad."

The contrast between a Government urging us to make tiny emissions savings at home yet excusing the Prime Minister's holiday jet encapsulates the inconsistencies in the Government's environmental policy. One moment ministers will preach Armageddon unless we drastically change our lifestyles; the next moment they are lecturing that it is essential a couple of villages are bulldozed to make way for a third runway at Heathrow. One day they are predicting inundation by rising sea levels; the next they are announcing cuts in the budget for sea defences. We do not have a coherent energy and environmental policy.

Instead we have contradictory policies and taxes which have done little other than to create suspicion among taxpayers that the Government is exploiting environmental issues in order to extract more revenue. This reflects a fundamental confusion about what it is that we are trying to achieve, and how to measure progress.

Quite apart from climate change, there are good reasons why we should reduce the UK's reliance on fossil fuels. It is an unfortunate accident of geography that fossil fuel reserves are concentrated in the most politically unstable

parts of the world, notably Russia and Iran. As demand grows from fast-developing economies in Asia, international energy markets are becoming tighter, leading to an upwards trend in fossil fuel prices over coming decades.

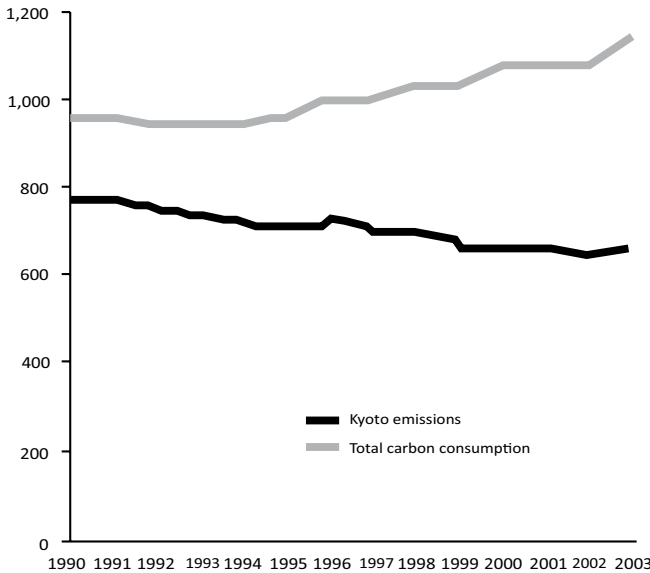
So energy policy can't be just about climate change. We want to ensure secure energy supplies and stable prices too.

And environmental policy isn't just about energy. Dealing with litter, reducing waste, and conserving nature are all important too. What we need now is a clearer sense of what we are trying to achieve and how to do it.

### Emissions: how are we doing?

It is hard to see that much meaningful progress has been made in reducing the country's reliance on fossil fuel despite the likelihood of sustained future price rises. The very ambitious targets set by the Government are not matched by the progress presently being made. Nor is it clear how the British attempts at cutting emissions could translate into international reductions.

**Figure 27: Greenhouse gas emissions on a consumption basis 1990–2003**<sup>234</sup>



<sup>234</sup> Helm D, Smale R and Phillips J, *Too Good to be True? The UK's Climate Change Record*, December 2007

The Government's record so far on reducing carbon emissions has been miserable. They are falling in Britain only because we have outsourced industrial production to China and other emerging industrial nations, exporting the carbon emissions along with the factories. While carbon emissions from the UK have fallen by 15% since 1990 under the Kyoto definition, the emissions from consumption in the UK have risen by 19%.<sup>235</sup> Given that the effect of a tonne of CO<sub>2</sub> is the same wherever in the world it is emitted, we simply have moved our emissions, not cut them.

In fact, on no front has significant progress been made. Emissions from aviation, which currently account for 5% of the total in Britain, are growing at such a rate that by 2050 they will form 24% of emissions.<sup>236</sup> Emissions from road transport have continued to rise in spite of an increase in the fuel efficiency of engines. The Government has repeatedly rowed back on proposals to discourage car use in the face of protest and potential protest from motorists. The fuel duty "escalator" introduced by the Conservatives in the mid 1990s to raise the price of road fuel above inflation was abandoned and fuel taxes reduced following the oil refinery blockades of September 2000.

The percentage of electricity generated in Britain by renewable means has inched up from 2% in 1997 to just 5.5% in 2008, and much of it is still from methane derived from waste landfill sites.<sup>237</sup> Too many eggs have been placed in one basket: wind energy, the intermittent nature of which requires gas-fired power stations to be retained for the occasions – often coinciding with the coldest, anti-cyclonic weather of the winter – when Britain is becalmed. Wind farms have done little to halt the growth in carbon emissions from power generation, which have risen from 150 MtCO<sub>2</sub> in 1997 to 171 MtCO<sub>2</sub> in 2008.<sup>238</sup>

In hitting its carbon reduction targets the Government has put much store in reducing the energy consumption of homes. While this goal is desirable, current attempts to achieve this have had poor results. Under the Carbon Emissions Reduction Target (CERT), energy suppliers are obliged to subsidise home insulation and other energy-saving measures, raising the money through levies on consumers. In 2008–09, according to energy regulator Ofgem, CERT added an average of £38 to domestic bills. But the present approach fails to tackle the inertia many householders face, because of its overly complicated application process and significant demands on householders in terms of cash, time and enthusiasm.

235 Ibid

236 *Reducing Emissions from Transport*, House of Commons Environmental Audit Committee 2005/06

237 Parliamentary written answer, 21st July 2009

238 DECC statistics

## What's wrong with our current approach?

### i. Targets set and ignored

The debate about reducing emissions has been dominated by two tendencies. The first is a high level of hypocrisy. Policy makers set targets, fail to meet them, and then set more ambitious targets. They are happy to set ultra-ambitious targets which are only to be met long after they will have left office.

Even those targets which are within the lifetime of those in office have tended to be set only to be missed and forgotten about. Of 138 high-level targets set since 1997, 60% are either likely to be missed or are so vague they are impossible to measure usefully. Some areas have done worse than others; when it comes to biodiversity, 88% of government sub-targets have been missed.

### ii. Anti-growth policies

The second tendency has been the highly sacrificial – or even apocalyptic – mentality of the green left. The journalist Paul Kingsnorth, writing in the *Guardian*, argued that: “the civilisation we are a part of is hitting the buffers at full speed, and it is too late to stop it. The writing is on the wall for industrial society.” *Guardian* columnist George Monbiot replied that “survivors of this collapse will be subject to the will of people seeking to monopolise remaining resources. This will is likely to be imposed through violence. Political accountability will be a distant memory.” He argues rather more optimistically for “an ordered and structured downsizing of the global economy”.<sup>239</sup>

This is pretty wacky stuff. But such thinking is quite widespread even among more mainstream green thinkers. Professor Kevin Anderson, the director of the Tyndall Centre for climate change research declared: “It’s a very uncomfortable message but we need a planned economic recession. Economic growth is currently incompatible with reductions in absolute emissions.”<sup>240</sup>

Whatever the response to climate change, thwarting economic growth is not going to be the answer, either in the developed world or the developing world. Rich countries can adapt to flood, famine and other natural disasters; poor ones cannot. Any strategy to suppress economic growth either in the developed or developing worlds would be a human disaster. Economic growth gives us the money to pay for sea defences, technology to devise crops to cope with changing climate and buildings to cope with heatwaves.

239 [www.guardian.co.uk/commentisfree/cif-green/2009/aug/17/environment-climate-change](http://www.guardian.co.uk/commentisfree/cif-green/2009/aug/17/environment-climate-change)

240 *The Times*, 3rd October 2009

This needs to be made clear. A refusal to compromise economic growth should be the starting point for devising a coherent energy and environmental policy.

### iii. Trying to solve a global problems by acting locally

The global nature of climate change – a tonne of CO<sub>2</sub> emitted in London has the same effect as one emitted in Beijing – means that an international approach is necessary. This is highly complex, and the disappointments of Kyoto and Copenhagen bear witness to the extreme difficulties of getting everyone to agree to anything more than the lowest common denominator, often doing nothing.

The Government has frequently sought to lead the way in international efforts to combat climate change. It has unilaterally set the UK the tightest target of any developed country: to reduce total carbon emissions by 80% by 2050. As far as Britain can lead the world, this is all to the good. However, unilaterally setting over-ambitious targets has very large costs.

If the Government really wanted to have an impact it would lead on concrete, practical and enforceable agreements, similar to the Montreal Protocol which has very effectively tackled the damage caused to the ozone layer by pollutants such as CFCs. In fact, this agreement has achieved more for climate change mitigation, as a by-product, than the Kyoto protocol even aspired to. This success is because it is a well-designed, enforceable and credible agreement.

## So what will work?

The public's willingness to pay to reduce emissions is far from infinite. Indeed, demonstrating that emissions are being reduced at lowest cost is essential if support for reducing emissions is to be maintained. Current policy is not efficient. For the current level of "spending" on emissions reduction (i.e. spending and the economic costs of regulation), we could deliver greater emissions reductions with different policies – or the same emissions reduction could be achieved at lower cost.

Cost-effective climate change policy is absolutely essential, especially given growing public scepticism about the current approach. Instead of gimmicky, interventionist policies, government should adopt a long-term strategy of supporting the lowest-cost ways to decarbonise the economy. There must be several elements to such a strategy.

## 1. Focus on the two technologies that can deliver mass clean energy

Realistically there are only two ways that Britain could slash its carbon emissions from power generation: first, to do as France has done and invest heavily in nuclear energy. Carbon emissions in France per capita are among the lowest in Europe, two thirds of what they are in Britain.<sup>241</sup> In the UK, our existing nuclear fleet is being decommissioned over the coming decade, while the new generation of nuclear plants currently being planned are very unlikely to be operational before 2020.

Secondly, there is the promise of carbon capture and storage (CCS): extracting carbon dioxide from the chimneys of gas and coal-fired power stations and storing it underground in geologically stable conditions. Yet the Government has been slow to seize the opportunity to take a global lead in the CCS technology. Given the expansion of coal power worldwide, this technology potentially offers a very promising means by which to slash global carbon emissions. According to the Intergovernmental Panel on Climate Change (IPCC) CCS could help reduce global emissions of CO<sub>2</sub> by 50% by 2050. And yet when BP approached the Government for support to develop an experimental CCS system at a gas power station in Peterhead, Scotland, in 2005, it was refused the price support subsidies that are being put into wind farms. BP is instead to build its experimental plant in Abu Dhabi in 2012. The Government has now agreed to help fund a smaller plant in 2014, but what is needed if Britain is to take a lead in this technology is to put CCS on the same footing as renewable energy, where there are guaranteed subsidies to take the technology beyond the development stage.

## 2. Rationalise the tax and subsidy framework

### i. Reducing the number of policies

UK and EU politicians have created a thicket of overlapping climate change policies – some of which are far from being cost effective. Different sectors are covered by multiple instruments which include: the Renewables Obligation (RO), Climate Change Levy (CCL), Carbon Emissions Reductions Target (CERT), Air Passenger Duty (APD), Fuel Duty, and the EU Emissions Trading Scheme (ETS). There are plans for a Feed-in Tariff (FiT) and a Carbon Reduction Commitment (CRC). This alphabet soup of different policies creates all kinds

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241 *Energy and Environmental Report 2008*, European Environment Agency

of economic distortions. Depending on what you are doing, you could find yourself paying completely different amounts for emitting greenhouse gasses. You could end up paying twice, or not at all.

The bureaucratic costs of having so many different schemes are very high. Having a complicated mix of policies which are themselves complex also makes it difficult for politicians to think about what effect they are having on other goals such as fuel poverty or energy security. For example, the Government has admitted that the drive to decarbonise the economy will add between 6 and 8% to the average home's energy bills – which cuts directly against its target of eliminating fuel poverty by 2016. A review of the EU ETS found that it will lead to a 30% increase in gas imports – making Europe more dependent on Russian gas.<sup>242</sup>

## ii. The Renewables Obligation

One of the biggest problems is the Renewables Obligation (RO) which requires energy companies to source a proportion of their electricity from renewable sources. This is a huge subsidy for renewables which is not made available to other zero-carbon power sources or carbon reducing technologies. It has also been implemented in a complex and bureaucratic manner which offers far too many opportunities for money to be made through lobbying for special interests. As a result it is one of the most expensive policies for reducing emissions anywhere in the world. If there is to be a subsidy for energy production it should at the very least apply to all non-carbon sources.

## iii. The Climate Change Levy

Another obvious candidate for change is the Climate Change Levy (CCL). It is effectively an energy tax, but with the odd distinction that it taxes different sources of energy almost at random. While its exemption for renewables makes sense for the decarbonisation agenda, its application to nuclear can only be explained by political factors. That coal, the dirtiest fuel going, is taxed at a lower rate than natural gas can only be explained by the Government's desire to protect the coal industry (a big issue for John Prescott when the decision was being made). The CCL could be turned into a non-distorting carbon tax which treats different sources of carbon emissions equally – and could be used to replace several other policies.

## iv. Emissions trading

Carbon trading has been at the heart of UK and EU attempts to tackle climate change. The EU Emissions Trading Scheme (EU ETS) is a “cap and trade”

242 [www.ec.europa.eu/environment/climat/emission/pdf/etsreview/061222compreport.pdf](http://www.ec.europa.eu/environment/climat/emission/pdf/etsreview/061222compreport.pdf)

scheme for carbon dioxide emissions. The basic idea is that the Government prints a certain number of permits to pollute, and then sells them off to companies, who can also trade them among themselves. From the perspective of economic theory, the scheme should find the least-cost ways to reduce carbon emissions, by channeling capital to those projects which achieve most at least cost. It has also worked well in practice before, dealing with oxides of sulphur (SOx) and nitrogen (NOx).

However, in practice, EU ETS has been heavily criticised for the profits made by some major companies involved in polluting industries. This stems from the “grandfathering” of permits – giving away rather than auctioning allocations of credits for companies already engaged in polluting activities. In some cases companies saw this coming and managed to get more permits to pollute than they needed. They were then able to sell them on at a profit.

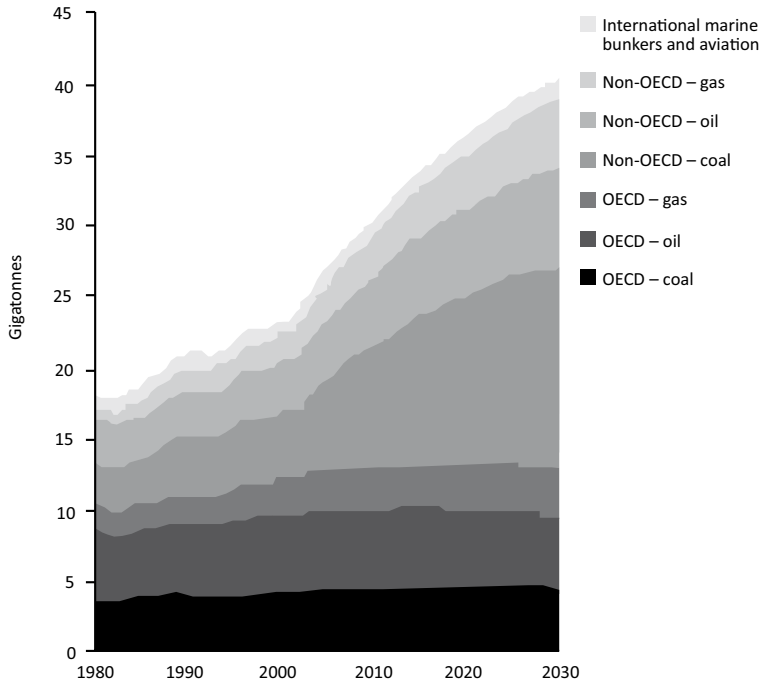
The first phase of the scheme saw oil companies take huge windfall profits out of the system in this way, while NHS hospital trusts did not get enough permits and so ended up paying into the system. In Germany the brown coal industry managed to get bonus permits – effectively a subsidy for one of the world’s most polluting fuels. Governments across Europe lobbied for their industry to be given as much as possible, leading to too many permits being created and the system delivering very little. As a result the price of carbon in the system gyrated wildly: between €33 and €0 in the first phase.

Governments have since tightened up the number of free allocations. But the problem of volatile prices is a fundamental one for carbon trading schemes. Even in the second phase the price has moved around between €31 and €8 a tonne. This makes it almost impossible to sensibly plan to invest. If a new piece of machinery could reduce emissions at a cost of €20 a tonne, should you buy it or not? As a result the system fails to reduce emissions.

### **3. Think more about technology change – and think globally**

The Kyoto Protocol sets binding emissions targets for the industrialised countries. But these restrictions don’t include developing countries, including the countries where emissions are growing fastest: China and India. Yet two thirds of the increase in energy consumption is taking place in developing countries.

**Figure 28: Energy-related CO<sub>2</sub> emissions in the Reference Scenario<sup>243</sup>**



97% of the projected increase in emissions between now and 2030 comes from non-OECD countries – three-quarters from China, India and the Middle East alone.

This is the result of rapid economic development and demographics. Officials in China, India and other developing countries have consistently made it clear that they will not sacrifice their economic development efforts to curb greenhouse gas emissions, something we can understand given the number of people living in poverty in these countries. At the same time the projected emissions growth from developing countries is set to swamp any efforts by developed countries to reduce their emissions.

Current policies aim to reduce our domestic emissions. But what if we are simply moving emissions offshore, and encouraging production to move to developing countries? As noted above, the UK seems to have simply offshored its emissions. But it isn't just a matter of hiding the problem. We might actu-

<sup>243</sup> World Energy Outlook 2008 International Energy Agency: [www.iea.org/country/graphs/weo\\_2008/fig16-01.jpg](http://www.iea.org/country/graphs/weo_2008/fig16-01.jpg)

ally be slowing down technology changes which are essential to solving the problem.

Finland provides a good example of the problems this throws up: its steel and paper production is the cleanest in the world; but due to strict national targets its manufacturing is penalised. That's because the costs of installing clean and efficient equipment raises prices; so "carbon leakage" occurs. Investment flows to the countries where there are neither emissions restrictions, nor environmental standards. If production is transferred to areas, like China, with looser emission norms, then emissions increase overall. This arrangement threatens to invert the "polluter pays" principle into "pay the polluter". So, perversely, raising the price of emissions in developed countries when there is no price in developing countries may simply slow the reduction of carbon intensity.

This is *not* an argument for doing nothing. Nor is it an argument for a trade war with China. And there are problems with the subsidies and regulations intended to reduce emissions too. But there may be limits on how much we can hope to achieve by raising the price of carbon, in the absence of similar prices in other countries. Given this, and the expected rapid growth of emissions in developing countries, far more of our efforts will need to go into policies which will directly encourage developing countries to adopt cleaner existing technologies – or to help develop attractive new technologies they will want to adopt.

## Think more about forests

Climate change policy cannot be concentrated on the burning of fossil fuels alone. Every year 12 million hectares of tropical forests are logged, cleared or burned, a process which releases approximately as much carbon into the atmosphere as each of the two biggest emitters of greenhouse gases in the world, the US and China.<sup>244</sup> The protection and creation of natural "carbon sinks" – which absorb the carbon dioxide we emit – should be at the heart of policy on climate change.

This should begin with the abolition of biofuel targets and subsidies which are encouraging deforestation. Financial aid should be made to developing nations which agree to protect natural carbon sinks. The Renewable Transport Fuel Obligation, which sets a target that 5% of road fuel should be biofuel, will remove carbon emissions equivalent to just one tenth of a large power station, at a very serious cost to the world's tropical rainforests and peatlands. The subsidy costs £550 million per year. A similar investment

in preventing deforestation would have saved ten times as much carbon from being emitted to the atmosphere.<sup>245</sup>

## Ignoring the need to adapt

In 2009 the Government produced a TV advert for children depicting a future in which towns and villages were flooded by the sea as a result of climate change. Yet at the same time as predicting catastrophic floods the Government has been hugely neglectful on building defences. The main danger to Britain presented by projections of climate change lies in increased flood risk and increased coastal erosion, caused by the 0.18 metre to 0.59 metre rise in sea levels by 2100 predicted by the Intergovernmental Panel on Climate Change.<sup>246</sup> Yet in 2006–07, the same year in which the Government published the Stern Review, the government actually cut £200 million from the flood defence budget in order to meet a shortfall at Defra caused by late subsidy payments to farmers.<sup>247</sup> Even before the cut investment in flood defences was running at only 50% of what the Environment Agency – which is charged with the duty of providing and maintaining river and sea defences – regarded as necessary.

In the Netherlands sea defences are built to a standard capable of defending against a 1 in 10,000 year event, and river defences are built to a 1 in 1,250 year standard. In Britain, if we build them at all, sea defences are constructed to a 1 in 200 year standard and river defences to a 1 in 100 year standard. While the Netherlands does have much lower lying land to defend, the disparity in the quality of our defences is alarming.

Many British rivers do not have a coherent system of flood defences. A report by the National Audit Office in 2007 reported that 54% of river flood walls could not be guaranteed to hold to their designed level in the event of an emergency. Even though flood defences are only as good as their weakest link, their maintenance is left to piecemeal works by individual landowners, many of whom are not even aware they are responsible for looking after vital defences. When the Environment Agency wrote to 400 landowners in the North Thames region warning them of essential work that needed to be carried out only a third of them agreed to carry out the required works. Why is the agency not empowered to undertake such works and then send the bill to property owners who benefit from them?

245 Ibid

246 *Fourth Assessment Report*, International Panel on Climate Change 2007

247 *The Guardian*, 27th June 2007

Often, however, we choose not to build flood defences at all, or we plan them and then cancel them. As a result of floods in 1998, the town of Banbury, Oxfordshire, was promised a £12.4 million scheme, consisting of sluice gates higher up the river to hold water on the floodplain before releasing it in controlled fashion. The Environment Agency carried out £1 million of preparatory works before cancelling them. If £11 million has been saved, it will be dwarfed by the sums lost in the event of further floods: a report by University College London, put the cost of the 1998 floods at £500 to £700 million in direct damage to property and £700 to £800 million in damage to the local economy.

It isn't just that defences are poor. Planning policy is pushing development into some of the most vulnerable areas. It was a frequent and depressing sight during the floods of 2000–01 and 2007: new properties, some of them only a year or two old, lying submerged in several feet of water. Natural floodplains such as those in the Thames Gateway are increasingly being designated for urban expansion. This increases the damage from flooding and storms, even if their severity does not worsen; if they become more severe the costs grow even more.

## Failing to keep the lights on

Saving the coal industry used to be a favourite cause of the Left. No longer. Nowadays, Greenpeace protestors scale the chimneys of coal-fired power stations and unfurl banners declaring them to be an “environmental crime scene”. The protests over the building of a new coal plant at Kingsnorth, Kent, have become increasingly bitter, leading in October 2009 to the owner of the site, E.On, to postpone the building of the new plant – on the grounds that falling energy use during the recession had changed the economic parameters and made it no longer possible to justify the cost of the carbon-capture technology which the Government had insisted must be fitted to the plant in the future.

Yet there is a desperate need for extra generating capacity. The Government has known for some time that the EU renewables target and the Large Combustion Plant Directive will spell the end of many coal plants, while most nuclear plants are coming to the end of their lives. However enthusiastic the drive for energy efficiency, it is clear that we will be left with a sizeable energy gap that needs to be filled. In 2006 the Government admitted that on current projections Britain will be 35 GW short of energy capacity by 2015.<sup>248</sup>

Much of this capacity will have to be filled by gas-fired power stations. This will represent a cut in carbon emissions where they replace coal, although not where they replace nuclear. This also raises a new challenge for government: to ensure reliable supplies of gas now that the UK is a net importer, especially of liquefied natural gas (LNG). Given the liberalised market in energy in the UK and the distinctly unliberalised nature of many of the LNG-exporting countries, this is an important task for the Foreign Office to grapple with for the next decade.

### **Failing to see the potential from waste**

On a more personal level, government has become very aggressive in enforcing perfect behaviour by householders, even where this has proved totally ineffective and counter-productive. Waste disposal is never far from the news, thanks to an increasingly punitive attitude on the part of councils towards householders breaking complicated rules. Such behaviour has done much to poison public attitudes about recycling and to suspect that waste policy has become used as an excuse to extract revenue from the public. According to a poll by Populus, 62% of the public believe that green taxes are more about raising revenue than helping the environment.

For all the draconian punishments handed out to the householders, the UK has a dismal record for dealing with waste in an environmentally-friendly way. More than half our waste goes to landfill, well above the EU average. In several countries, most notably Germany, landfill has been all-but abolished. There, more than 60% of waste is composted or recycled, with the remainder being used to generate electricity or heat through incineration.

### **Treat waste as a resource, not a problem**

The Government's approach to waste disposal dates from the 1999 EU Landfill Directive, which set targets for member states to reduce the amount of waste being buried. The directive did not insist upon recycling but the Government decided that this would generally be the preferred option. It established a hierarchy of waste disposal options, with landfill at the bottom, re-use along with recycling at the top and incineration in the middle. Local authorities are given recycling targets, expressed in terms of total tonnage of goods recycled.

This simplistic order of preferences ignored the subtleties of waste disposal. For some materials, incineration with energy recovery is a more cost-effec-

tive solution, while re-use is massively under-exploited. Beyond the materials involved, how waste is collected from different households is very important. The extent to which householders separate their waste into different types of materials has a huge impact on how worthwhile recycling is. Collections from high-rise flats are much more challenging in this regard than those from suburban areas.

An important factor is the attitude of the householder towards waste. The present setup – where many households have five bins and they face fines for not using them perfectly – could have been designed to sap the enthusiasm for the environment many feel. Rewarding good behaviour through the use of real, positive incentives will be vital for diverting waste from landfill in the future.

The potential to generate energy from waste is enormous. According to the Institution of Civil Engineers energy burning and gasification of waste could generate up to 17% of the country's energy needs.<sup>249</sup> Food waste in particular has significant potential to produce significant carbon emissions reductions and generate electricity or heat through anaerobic digestion, a process which produces methane which can be refined and used as a substitute for natural gas or as transport fuel.

Government must set a sensible framework for waste policy, which aims to extract value from the material we presently throw away while minimising environmental harm. This means a combination of recycling, energy recovery and reuse. Tonnage targets which oblige local authorities to recycle the greatest possible weight of waste should be abolished and replaced with financial incentives.

## Litter

A step closer to home is the problem of litter. Britain has a terrible reputation for litter, and deservedly so. Yet once again, the approach government has taken has been to aggressively and ineffectively police a problem, then spend large amounts of money cleaning up after it. Councils spend around £500 million per year clearing litter, while enforcement is rare and often arbitrary.

Using clever design of urban spaces, well-organised national campaigns and introducing deposit schemes for some of the most prevalent litter materials, this problem can be effectively tackled. Re-energising anti-litter campaigns on a national basis, as done in Australia, should get communities involved in clearing their neighbourhoods, and keeping them tidy. Understanding the

249 Oakdene Hollins, *Quantification of the Potential Energy from Residuals in the UK*, ICE 2005

psychology behind littering will enable us to effectively target those people who most often litter – and don't even realise that they are doing it. And introducing a deposit scheme for cans and bottles, as exists in many other parts of the world, will place a value on some of the most littered products, ensuring their return. Well-designed deployment of user-friendly ashtrays can cut down on the most prevalent single source of litter – cigarette butts. And we can once again live in a green and pleasant land – both in the country and the city.

**Action points**

- Reshape climate policy goals around global consumption, not national production.
- Concentrate effort on technologies with the potential to promote global scale clean energy: nuclear and CCS.
- Rationalise the tax and subsidy mix to deliver emissions reductions at a lower cost.
- Focus more on promoting global technology change.
- Abolish biofuel targets to protect forests.
- Upgrade flood protection and sea defences, and develop a sensible charging system to pay for them.
- Take energy security more seriously, and redeploy Foreign Office officials to this task.
- Create a real market for waste and encourage energy from waste.
- Use market forces and deposit schemes to reduce litter.

# Conclusion

Throughout the course of this book, we have tried to highlight the reasons why Britain is not the liberal, free and prosperous nation that it could be.

Having entered a recession on the back of what seemed to some to be an endless period of prosperity, it is now clearer than ever that there are major flaws in the way that the Government has sought to deal with the problems facing it. For example, the notion that spending on public services should continue to rise inexorably, without regard for efficiency, has led to a culture of complacency both inside and outside the public sector.

In challenging that orthodoxy, political leaders need to have the courage to tell the electorate an uncomfortable truth: government cannot be everywhere, do everything and please everyone.

In times of plenty, such an approach might have been considered so unpopular as to be politically impossible. But when the Government's debts and liabilities are approaching £100,000 per household, more of the same is no longer an option. Political courage is needed urgently.

To overcome these challenges and adjust to the realities of life in Britain beyond the boom, we need to foster innovation and enterprise more than ever. It will not just be cuts, however large, in public spending or increases in tax rates that will pull us out of our current difficulties. It will be wealth (and the tax receipts that flow from it) generated by those prepared to risk their own time and money in seeking out new ways to do business.

As a society, we all need to recognise that, however much we might wish it wasn't the case, danger is a part of life that can never be completely eliminated. In trying to do so, we have created a culture where every accident requires blame or an inquiry and promises are made that it "must never happen again." In fact danger will always exist and accidents will happen. This book is intended to help move some of these debates on.

The magnitude of the challenges Britain faces are huge, and it can be easy to fall into pessimism about its future. But many countries have solved equally serious problems. Britain itself has seen all kinds of miraculous transformations over the last 30 years. As a country, we still have much to be thankful for and, with the right approach, much to look forward to again.

In *The Renewal of Government*, Neil O'Brien and Ross Clark set out an optimistic manifesto for economic reform and show how, with less money, we can still deliver better public services.

This book shows how we can staunch the flow of regulation, reduce the cost of energy and climate policies, and make it easier and cheaper to build. It argues for radical reform of our schools and universities to break the anti-work, anti-achievement culture which squashes people's aspirations and opportunities. It sets out bold changes that will help people currently trapped on benefits escape into work, and proposes ways to liberate the public sector from the bureaucratic burdens and mismanagement it is currently labouring under.

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Policy Exchange  
Clutha House  
10 Storey's Gate  
London SW1P 3AY

[www.policyexchange.org.uk](http://www.policyexchange.org.uk)