

How to run a country: The 2015 Spending Review

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How to run a country: The 2015 Spending Review

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Foreword

Tony Blair's governments reformed public services to give opportunity to those that needed it most. David Cameron's first government sought to control public spending as the UK emerged from the financial crisis. The new Government has the chance to embed these reforms and to put the UK on a genuinely new path. That path would make decisions on public spending today in order to deliver sustainable public finances for years to come. It would recast the traditional shape of public services around the outcomes that society needs them to deliver. It would measure public service budgets not just by spending and "cuts" but by their return on investment, in particular for the most disadvantaged people. This would be a new era for the welfare state, leaving behind the idea that sustainable public finances and greater opportunity are mutually exclusive.

In the last Parliament, the Government had to revise its very tight public spending plans, as the state of the economy made them impossible. It will very likely do the same in this term. The UK does not need short-term fiscal rules which are necessarily broken when economic circumstances change. It needs a long-term rule to reduce public debt over the next 30 or 40 years, flexible enough to cope with economic downturns. That long-term view makes the Government's 'triple lock' of maximum state pension increases extremely unwise. It means the Government is absolutely right to push for NHS reform with a new vigour. Without these changes, all of the Government's hard work in reducing the deficit will be seen as irrelevant when public debt starts rising again a decade and a half from now.

Public services have to do better in delivering outcomes for all citizens. A focus on outcomes means much greater freedom of thought on how services are provided and by whom. For public services, new provision means a new approach to people and technology. The policing workforce is already changing for the better and should continue to do so. The NHS workforce should follow its example. Very often, success in public services means changing the lives of people with multiple needs, from elderly people with health, care and housing needs, to troubled families, to children in care, to offenders. The 2013 Spending Round recognised that helping these people meant integrating existing new services or starting new ones. The forthcoming Spending Review must go much further. Central government can help with new support for data sharing and greater clarity on the outcomes that it wants to achieve.

The Government is right that education reform and welfare reform can spread opportunity to the most disadvantaged. Academies and free schools should form powerful school chains, making savings through economies of scale and reinvesting those in better teaching. The ambition to prioritise deep cuts in working age welfare, however, is likely to undermine the wellbeing of some people and, as a result, to increase demand for welfare in the future. Long-term reductions in welfare spending may well need investment up front. Sharp cuts to benefits with the aim of protecting public services from change do not work at any level.

The prize is very great. Policies which deliver better education, employment and sound public finances will demonstrably raise the wellbeing of people and society. The new Government has rightly said that prosperity is necessary but not sufficient. A 'one nation' society, with new opportunities for the most disadvantaged, has to go hand in hand. The Spending Review will be the Government's most important moment in this Parliament to get these policies right.

Andrew Haldenby
Director, Reform

Recommendations

General

The Government should adopt a new policymaking framework for public services based on three clear principles:

- Wellbeing: improving citizens' capacity to live a life that matters to them;
- Sustainability: ensuring today's policies do not reduce the opportunities available to future generations; and
- Inclusion: ensuring no group faces systematic disadvantage.

Wherever possible, public service reform should make greater use of choice and competition. Whilst care is needed to ensure equity of provision, there is strong evidence that choice and competition lead to more affordable public services and greater citizen wellbeing.

The Government should seek to exploit technology to redesign public services around the wellbeing of users. In doing so, it should adopt a clear ethical and legal framework for data sharing, alongside the successful and speedy implementation of a single digital ID.

The Government should abandon short-run deficit rules that limit the planning horizon and replace them with an explicit long-run debt target, monitored by the Office for Budget Responsibility, alongside policy impacts on headline measures of economic wellbeing.

Health and social care

The NHS should accelerate service redesign to better coordinate services and expand capacity beyond acute hospitals, including social care. It should extend the scope and uptake of personal budgets across health and care to give patients greater choice across services.

The NHS should make prevention its core business. It should look to outside expertise and learn the lessons of industries such as banking and retail to accelerate patient engagement.

The Government should promote diversity of provision to drive greater efficiency, innovation and choice for patients.

The Government should make sustainable improvements to health and social care productivity a priority.

The Government should raise the level of the prescription charge and reform exemptions. It should go on to consider charges for parts of primary and secondary care.

The Government should maintain means testing of long-term care funding and draw on housing assets, as well as income, to support this.

The Government should reverse rising workforce numbers by improving the productivity of existing staff. It should challenge traditional job roles and terms and conditions to ensure staff have the right skills in the right place for patients.

Education

The Government should extend academy freedoms to all schools. This should include the freedom to hire unqualified teachers and make changes to teachers' terms and conditions. It should also remove the barriers to schools joining school groups, with a view to encouraging more schools to innovate.

The Government should introduce a national funding formula that is fair and consistent across schools with similar pupil intakes weighted for pupils' deprivation and local labour market conditions.

The Government should consider the broader impact of education spending decisions on improving employment opportunities for the most disadvantaged. It should integrate school destination data with employment data, including earnings and out of work benefits.

Working age welfare

The Government should not freeze benefits. Instead, it should consider whether a more flexible approach which allows for more generous uprating at times when inflation outstrips earnings growth, but enables that additional generosity to be clawed back when this is reversed is more appropriate. This must take account of the different objectives inherent within different benefits.

The Government should build on the current Work Programme model, which has delivered improved value for money compared to previous programmes, but should evaluate which components have worked well and which elements require amendment. Particular attention should be paid to the differential pricing structure, which did not achieve the Coalition Government's objective of ensuring greater investment in those furthest from the labour market.

The Government should abolish Child Benefit and compensate low income families through Universal Credit. Disability Living Allowance and Personal Independence Payments should either be taxed or means tested.

The Government should reverse the shift towards private rental accommodation by investing in new social housing. This would require substantial capital investment, but over time would reduce the Housing Benefit bill and ensure that taxpayer money is being spent more efficiently.

The Government should have as an objective a reduction in the number of people on low pay. This should include encouraging employers to pay higher wages for those at the bottom of the earnings scale, and applying ministerial pressure where appropriate.

In addition, the Government should look at how people in low paid jobs can be supported to progress in work. Evidence of what works in this area is limited and therefore the Government should invest in testing different models. A social investment model similar to the Department for Work and Pensions Innovation Fund could be used.

The Government should, as a priority, review the principles upon which out of work support for those with a disability or health condition is built. In doing so it should:

- pay particular attention to ensuring that the benefit encourages and supports claimants to move into work as quickly as possible;
- reduce the Work Related Activity Group rate to that of the Jobseeker's Allowance;

- explore the advantages and disadvantages of a single rate out of work benefit;
- overhaul the gateway and assessment process to ensure that recipients receive personalised, rehabilitative employment support as quickly as possible;
- consider the scope for mandating claimants to follow a rehabilitation plan and engage fully in back-to-work programmes.

Pensions

The Government should uprate the State Pension through an Australian-style 'relative earnings link', which increases payments with earnings during normal years but allows temporary flexibility during periods of high inflation.

The Government should scrap the Winter Fuel Allowance and free TV licence, with cash support reserved for the most vulnerable pensioners. To combat pensioner loneliness, it should retain free bus passes.

The Government should conduct a feasibility study of auto-escalation, as well as evaluate measures to help those marginalised from the auto-enrolment system, such as the self-employed.

The Government should accelerate and prioritise the roll out of the Pensions Dashboard.

The Government should develop a skills and welfare to work strategy that specifically targets the needs of older workers who want to remain active in the labour market.

Crime and policing

The Government, in conjunction with the National Statistician, should develop an index of 'high harm' crime to be incorporated into national crime statistics. Her Majesty's Inspectorate of Constabulary should report on incidences of, and responses to, such crime. Online crime maps should be presented as 'heat maps' weighted by harm.

The Government should implement Sir Tom Winsor's 2013 recommendation that compulsory severance be introduced for all police officers, giving chief constables the flexibility to create a modern workforce that best meets demand.

In conjunction with the College of Policing, the Government should also consider how to increase the number of direct entry superintendents, to achieve the goal of diversifying the experience and talent base within the police service as quickly as possible.

The College of Policing should work with the Metropolitan Police Service to evaluate Police Now and, if it proves successful, support its roll out nationally.

The Government should mandate all police forces to purchase standard items such as handcuffs, boots and uniforms through a national framework.

The Government, in conjunction with the National Police Chiefs' Council, should as a matter of priority review how best to deliver specialist policing functions in the most cost effective and accountable way.

The College of Policing should identify best practice examples of collaboration and integration as part of their What Works repository.

The College of Policing should review the evidence on asset-based policing and provide information on best practice models as part of its What Works repository.

1

Introduction

“I truly believe we’re on the brink of something special ... we can make Britain a place where a good life is in reach for everyone who is willing to work and do the right thing.”

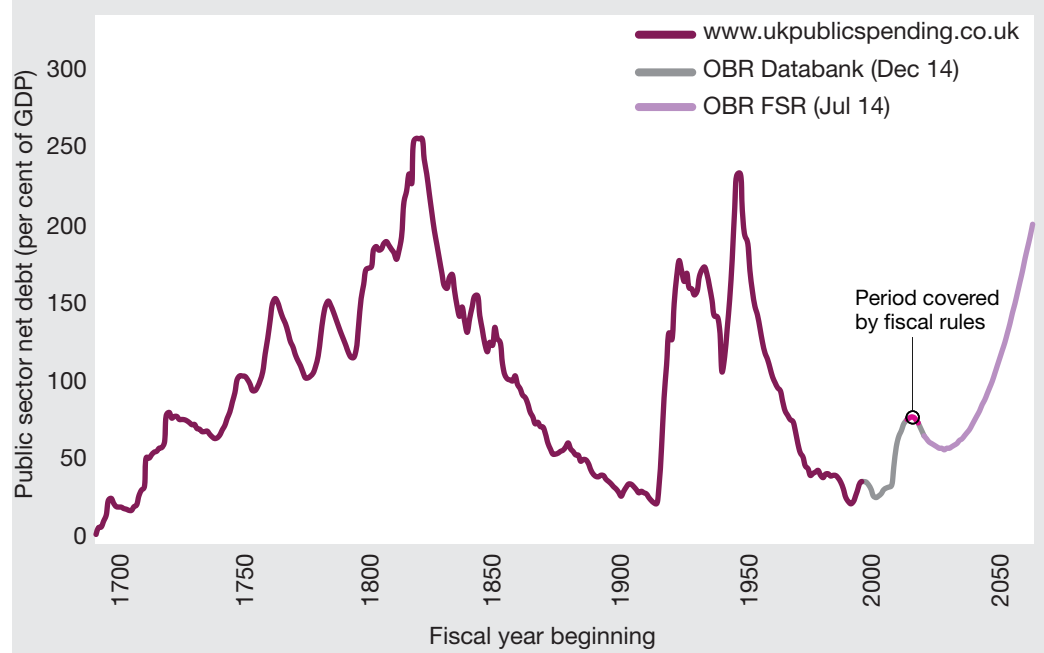
Prime Minister David Cameron, 8 May 2015¹

The new Government has a clear mandate to reform the public sector and return the public finances to balance. In doing so, it can draw on many valuable lessons from its Coalition predecessor. On the one hand, in policing and local government, the simplistic link between expenditure and outcomes has been comprehensively broken. Yet on the other hand, the apparently impressive growth in healthcare and education productivity seems to have done little to help manage short-term funding crises, let alone address longer-term pressures.

To eliminate the deficit by 2017-18, the Chancellor of the Exchequer has previously said he needs to find an additional £30 billion of savings. Yet, at 77.8 per cent of GDP, the forecast level of public service net debt in that year will remain uncomfortably high.² In any event, the Office for Budget Responsibility (OBR) has already established that demographic change over the coming decades will render meaningless any temporary stabilisation in the public finances. Without fundamental reform, debt will soar above 200 per cent within 50 years (see Figure 1).³

Figure 1: Three centuries of UK public debt

Sources: Office for Budget Responsibility (2014), *Fiscal Sustainability Report*; Riley and Chote (2014), *Crisis and Consolidation in the Public Finances*.



The challenge facing the Government ahead of the autumn Spending Review, however, should not be defined solely by a narrow desire to contain costs. David Cameron’s vision of the ‘good life’ – a key theme of his General Election campaign – is founded on a deeper philosophy that the work of government ought to be shaped around the wellbeing of its citizens. Indeed, this new vision echoes a pledge he made five years earlier: “If you have the privilege of being in government, you should try and think about the long term and not just today. And in the long term, I think the country would be better off if we thought about wellbeing and quality of life as well as economic growth.”

¹ David Cameron, “Election 2015: Prime Minister’s Speech,” 8 May 2015.

² HM Treasury, *Budget 2015*, March 2015 (Table 1.3).

³ Office for Budget Responsibility, *Fiscal Sustainability Report: July 2014*, July 2014.

The Prime Minister is surely right. Moreover, his instincts are supported by a wealth of academic research⁴ and by the experiences of successful countries like Australia and New Zealand, which can shed light on how to achieve sustainable public finances and genuinely inclusive societies. This attention to the impact of the State on the wellbeing of the individual raises an important corollary: the need to give special consideration to the most vulnerable groups in society, whether this is defined by income level, health status or any other relevant socio-economic factor (or indeed combination of factors). So, for example, while the level of mortality amenable to healthcare has improved over recent years, those living in deprived areas remain significantly more likely to die early than those in more affluent areas (see Figure 2).

Figure 2: Deprivation and mortality

Sources: Public Health England (2015), *National Public Health Profiles*; Health and Social Care Information Centre (2015), *Compendium of Population Health Indicators*.



The forthcoming Spending Review offers the opportunity to draw all of these strands together: sound public finances based on sustainable public services, that ensure the good life is open to all. The drive to secure value for money will always be paramount, of course, yet precisely because of the precarious state of the public finances it is more important than ever that decisions about reform are informed by a clear and consistent framework.

The good news is that all the pieces necessary to make this happen are in place. Over the last five years the Office for National Statistics (ONS) has developed robust new measures of economic and social wellbeing. The Treasury has prepared guidance on how these measures can be incorporated into its mandatory *Green Book* guidance on policy appraisal.⁵ And the Coalition Government announced last year the creation of a new *What Works Centre for Wellbeing* that will “support commissioners and decision-makers at every level of government – from head teachers and local police chiefs, to ministers and civil servants.”⁶

⁴ See, for example, Joseph Stiglitz, Amartya Sen and Jean-Paul Fitoussi, *Report by the Commission on the Measurement of Economic Performance and Social Progress*, September 2014; Gus O'Donnell, Angus Deaton, Martine Durand, David Halpern and Richard Layard, *Wellbeing and Policy*, March 2014.

⁵ Daniel Fujiwara and Ross Campbell, *Valuation Techniques for Social Cost-Benefit Analysis Stated Preference, Revealed Preference and Subjective Well-Being Approaches: A Discussion of the Current Issues*, July 2011.

⁶ Cabinet Office, “New What Works Centre for Wellbeing,” 29 October 2014.

The remainder of this report explores how such a framework could be applied to the country's core public services: health, education, welfare, pensions and crime. Each chapter is self-standing and sets out clear recommendations for reform. Together they present a new and more powerful analysis ahead of a Spending Review which will see decisions taken that re-shape public services for a generation.

Recommendation

The Government should adopt a new policymaking framework for public services based on three clear principles:

Wellbeing: improving citizens' capacity to live a life that matters to them;

Sustainability: ensuring today's policies do not reduce the opportunities available to future generations; and

Inclusion: ensuring no group faces systematic disadvantage.

2

A better way to deliver public services

Camilla Hagelund
Richard Harries
James Zuccollo

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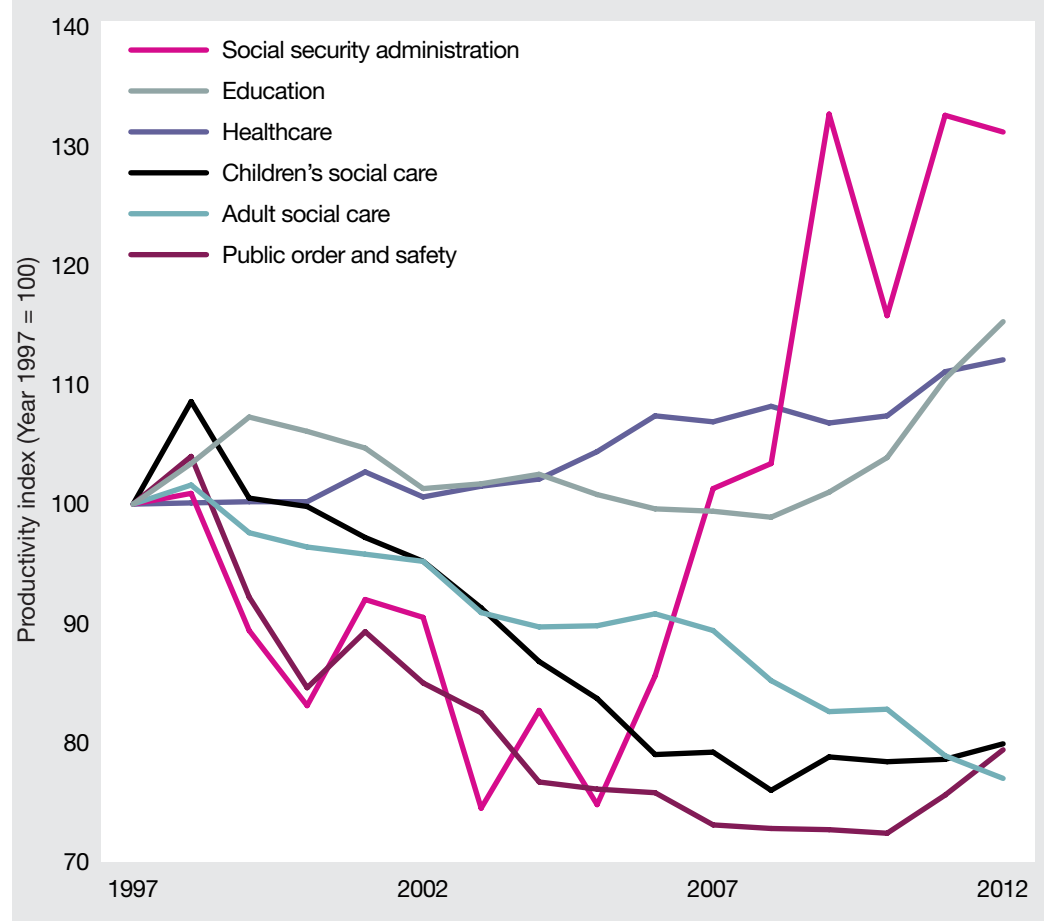
Around the world, governments are recognising the need to rethink systematically the way that public services are designed and delivered. Rapidly changing public expectations, a dissatisfaction with one-size-fits-all solutions and the ticking time bomb of demographic change combine to make the status quo unaffordable and unacceptable. In the UK, with at least £13 billion of savings planned across Whitehall departments, and an additional £12 billion in welfare savings, the choices facing the Government are tightly constrained.⁷ In essence, it can:

- reduce eligibility;
- reduce generosity;
- improve productivity; and/or
- transform delivery models.

It is difficult to see how the Government will be able to avoid the first two options. Indeed it has already announced its intention to reduce the annual benefits cap from £26,000 to £23,000. By contrast, improvements in productivity promise a free lunch by reducing the cost of outcomes. The scale of this particular challenge, however, cannot be underestimated. Public sector productivity has lagged the whole economy dramatically for nearly two decades, despite the stagnation in private sector productivity since the 2007 recession. However this lacklustre performance masks considerable variation in the productivity of individual public service areas (see Figure 3).

Figure 3: Public services productivity by sector, 1997-2012

Source: Office for National Statistics (2015), *Public Sector Productivity Estimates: Total Public Sector, 2012*.



⁷ George Osborne, "Budget 2015 Speech," 18 March 2015.

Genuine transformation of delivery models – for example, moving from reactive to preventative services – offers the greatest hope but also presents the greatest test of political will. Whichever way the Government chooses to meet the challenge of ongoing fiscal consolidation, it should seek to do so with an eye to the wellbeing of the whole population, particularly those most in need. It should also seek to do so in a way that does not undermine further the long-term sustainability of the public finances.

Two well established routes to greater productivity in the public sector are through better use of technology and the introduction of market disciplines. These are considered in more detail below. However, the delivery of public services cannot be divorced from the development of policy at the centre. Indeed, a common complaint of the Whitehall ‘policy profession’ is that it does not properly understand the delivery environment on the front line.⁸ The final section of this chapter therefore considers how a wellbeing approach could change decisions at the centre of government, with a specific example of the positive difference it could make to fiscal policy making.

2.1 A more effective front line

Public services should always and everywhere operate to improve the opportunities available to citizens; they should never be built for the convenience of the service provider. One way to achieve this is through greater choice and competition. This can be delivered through private and third sector suppliers but it can also be achieved through greater use of mutualisation (one of the hidden success stories of the Coalition Government). Beyond that, more fundamental reform calls for fresh thinking, not least in the way that new technology is exploited.

2.1.1 Greater contestability

The use of choice and competition in public services has been growing steadily over the last three decades.⁹ Despite the obvious contribution to cost containment and productivity, the main arguments in favour of choice and competition are usually (and rightly) expressed in terms of higher quality public services and improved outcomes. These arguments have found support in a number of analyses^{10,11} but they remain the subject of fierce dispute, with critics often confusing choice and competition with privatisation and the transfer of public assets into private ownership.

In a guide for policymakers published in 2010, the Office of Fair Trading (OFT) stressed the importance of recognising that public service markets are “typically subject to market failures, such as externalities or information asymmetries”, noting that “Consumers do not generally pay directly for services they receive. And providers are not generally driven by a profit motive, but by wider public service interests.” It concluded that, whilst the use of choice and competition is not appropriate for all public services (particularly where user engagement is low), a key benefit of the approach is that the choices made by users and the way that providers respond convey valuable information “that a central planner is unlikely to have”.¹²

The OFT report drew on evidence from five key reforms introduced during the Blair/Brown years: in elective healthcare, schools, further education, social care, and services for the long-term unemployed. The Coalition Government sought to build on its predecessor’s legacy through its *Open Public Services* programme. Launched at a *Reform* event in July 2011, the Prime Minister set out five key principles for the programme:¹³

8 See, for example, Anthony King and Ivor Crewe, *The Blunders of Our Governments*, 2013.

9 Julian Le Grand, “Delivering Britain’s Public Services through ‘quasi-Markets’: What We Have Achieved so Far”, *Research in Public Policy*, No. 3 (Winter 2011).

10 Zack Cooper, Stephen Gibbons, Simon Jones and Alistair McGuire, “Does Hospital Competition Save Lives? Evidence From The English NHS Patient Choice Reforms,” *The Economic Journal*, Vol. 121, No. 554 (August 2011).

11 Simon Burgess, Carol Propper and Deborah Wilson, *Will More Choice Improve Outcomes in Education and Health Care? The Evidence from Economic Research*, 2005.

12 Frontier Economics, *Choice and Competition in Public Services: A Guide for Policy Makers*, March 2010.

13 David Cameron, “Speech on Open Public Services,” 11 July 2011.

- increasing choice, with a pledge to enshrine in law a general ‘right to choose’;
- decentralisation, with new powers transferred to county, district and parish councils;
- greater diversity, with services provided by any qualified provider;
- fairness, ensuring the poorest do not get left behind; and
- accountability, through transparency and greater use of payment by results.

The extent to which the Government succeeded against these principles is mixed. In its last published assessment before the General Election, it claimed to have made “huge steps” implementing choice and competition whilst noting that there was “still further to go”.¹⁴ A review in 2012 by the National Audit Office (NAO) noted that the development of public services markets “requires government departments and agencies to possess and deploy a very different skill set for a commercial environment”.¹⁵

More recent research has looked explicitly at the link between choice, competition and personal wellbeing. A series of three papers by Dr Valentina Zigante and others explore the role this approach has played in reforms of UK and other European health and long-term care systems. The conclusion drawn by Zigante is that, whilst attention is needed to ensure the benefits of reform do not accrue disproportionately to the middle classes, the overall impact on wellbeing is unambiguously positive.¹⁶

As well as making greater use of choice and competition, the Coalition Government and its predecessors sought to stimulate a greater diversity of provision through the expansion of opportunities for charities and social enterprises, most recently through the creation of over 100 public service mutuals.¹⁷ Often this has been accompanied by new financial mechanisms such as Community Share Issues and Social Impact Bonds, which seek to blend public money with private philanthropy to deliver economic value alongside social dividends.¹⁸

Reform last year made the case for the next generation of public service reform, combining these new models of social investment with a licence-based approach that radically reduces the entry and exit barriers faced by providers whilst giving public service users a much greater diversity of choice.¹⁹ In specific recognition that “often the people who have the greatest need for public services are the ones least able to choose”, the report proposed three basic formats of choice:

- **Free choice** – Customers can choose any licensed provider, as happens with choosing university now for instance. They may seek the advice of professionals, but they are not required to do so.
- **Professional choice** – A professional, such as a clinical psychologist, might make the choice of provider on behalf of the citizen. Providers market to the professional, not the actual user, as happens in the pharmaceutical industry at present, for instance.
- **Assisted choice** – A hybrid. Professionals create a shortlist of suitable providers, from which the customer chooses with the professional’s support.

¹⁴ HM Government, *Open Public Services 2014*, March 2014.

¹⁵ National Audit Office, *Delivering Public Services through Markets: Principles for Achieving Value for Money*, June 2012.

¹⁶ Valentina Zigante, *Consumer Choice, Competition and Privatisation in European Health and Long-Term Care Systems: Subjective Well-Being Effects and Equity Implications*, 2013.

¹⁷ Francis Maude, “Speech at Reform Conference, The Private Sector and Public Services,” 25 May 2015.

¹⁸ Cabinet Office and Worthstone, *What Is Social Impact Investment? What It Is, What It’s Not and How It Works*, February 2015.

¹⁹ Andrew Haldenby, Richard Harries and Jonty Olliff-Cooper, *Markets for Good: The Next Generation of Public Service Reform*, Reform, October 2014.

Recommendation

Wherever possible, public service reform should make greater use of choice and competition. Whilst care is needed to ensure equity of provision, there is strong evidence that choice and competition lead to more affordable public services and greater citizen wellbeing.

2.1.2 Better use of technology

As the private sector rapidly adopts new technology, the failure of the public sector to keep up has contributed to a steadily expanding expectations gap and dissatisfaction with public services. While the Coalition Government placed digital transformation at the heart of its reform agenda, establishing the Government Digital Service and adopting the mantra 'digital by default', the UK remains largely at the stage of digitising an analogue state. It has yet to make the leap to transformation through digital technologies.

The GOV.UK platform was one of the Coalition Government's first digital innovations. It replaced the individual websites of hundreds of government departments and public bodies, bringing everything together in one portal, erasing departmental silos from public view, and presenting the Government as a single, unified entity. However, the portal is limited to central government business only and is primarily intended as a tool for one-way information provision to the public. There is significant scope for extending the use of such platforms, not only to support the direct delivery of public services but also to support more interactive, two-way communication with users. In 2012, the consultancy IMPOWER estimated that as much as £5 billion could be saved through better demand management in the public sector, including via improved engagement with citizens.²⁰

The digitisation of 'exemplar services' is likewise a welcome step in the right direction;²¹ but they are lacking in ambition. Whilst it has enabled some citizens to interact more easily with the public sector, for instance when renewing a driver's licence, the emphasis on informational and exemplar services, selected by volume, suggests that the emphasis has been on achieving efficiency savings through channel shift. The Government should seek to make self-service much more common within public services, but more than that, it should focus on digital innovation as a tool for genuine service transformation. However, the full potential of digital technologies will only be realised when the Government finds a way to overcome the interlinked issues of data sharing and data protection.

Data sharing

In an ideal world, citizens should not need to share the same information with the public sector more than once and public agencies with a legitimate interest should be able to access relevant data, even when it has been collected by another body. 'Data sharing' platforms allow that to happen. Estonia has been a front runner in this field, with its development of the X-Road.²² Its decentralised model, with no single owner or controller and where services can be added individually as and when ready, is considered both a secure and highly flexible model. Meanwhile, the US Department of Homeland Security has developed the 'data lake' model, where the extensive use of data tags facilitates the secure use of data by different agencies.²³ These tags contain meta-information about the data, for instance about its origin. More importantly, tags can be used to assign access rights according to an agency's needs and entitlement to the data.

The Coalition Government made some strides towards data sharing, for example with its 'Tell Us Once' service for reporting deaths²⁴ and with real time information sharing between the Department for Work and Pensions (DWP) and Her Majesty's Revenue and

20 IMPOWER Consulting Ltd., *Changing the Game*, January 2012.

21 GOV.UK, "Digital Transformation," <https://www.gov.uk/transformation/exemplars>, accessed on 5 June 2015.

22 e-Estonia, "X-Road," <https://e-estonia.com/component/x-road/>, accessed on 5 June 2015.

23 John Podesta, *Big Data: Seizing Opportunities, Preserving Values*, May 2014.

24 GOV.UK, "What to Do after Someone Dies," <https://www.gov.uk/after-a-death/organisations-you-need-to-contact-and-tell-us-once>, accessed on 28 May 2015.

Customs (HMRC).²⁵ Nevertheless, much data remains underused by departments because of a lack of awareness of its existence or through uncertainty about good data protection practice.²⁶ This significantly limits the Government's ability to deliver the best outcomes for citizens in the most cost-effective way.

Data protection

Another barrier to realising the full potential of digital is the concern about data protection and privacy linked to data sharing. This concern reflects a deeper lack of trust in government. According to a 2014 opinion poll, a third of the public fear that data will be misused, and a mere 18 per cent of respondents expect data sharing to improve services.²⁷ An honest and open public debate is therefore needed about the potential benefits, for all involved, of data sharing and analytics in the public sector.

The political debate centres on the notion of ownership and control of personal data but the difficult question is how this is ensured. There is an urgent need to consider the ethical implications of data sharing and to establish a clearer legal framework that builds trust in government and private organisations, who hold personal data on individuals. This will be a debate requiring strong political will and courage. The successful Estonian model sought to establish public trust through transparency, allowing citizens to see who in the public sector has accessed what information about them, and thus enabling them to call into question the legitimacy of the use of their data by individual agencies.²⁸ The Government should learn from that model.

A secure and accessible ID assurance mechanism is a requisite element in a data protection framework, and a critical instrument for building digital engagement and user trust. Two-step verification technology was key to making online banking a success. A digital ID would enable secure two-way transactions between citizens and government, which through multi-purpose portals would facilitate one-stop delivery of services. 'Verify' – the Government digital ID – is still under development and hence the potential for personalised interaction between the public sector and the individual is in its infancy. The roll-out of a digital ID must be a top priority for the Government.

Recommendation

The Government should seek to exploit technology to redesign public services around the wellbeing of users. In doing so, it should adopt a clear ethical and legal framework for data sharing, alongside the successful and speedy implementation of a single digital ID.

2.2 A more strategic centre

The last five years of fiscal consolidation under the Coalition Government brought into sharp relief many of the frailties of the current policy making and delivery process. As the former Paymaster General Francis Maude MP acknowledged in 2013, "despite the very best endeavours of many people", the implementation of the Civil Service Reform Plan was held back "by some of the very things that it was designed to address – weaknesses in capability, lack of clear accountability, and delivery discipline."²⁹

A particular concern has been the growing gap between policy development and policy implementation, a trend that has been reinforced by the development of a separate 'policy profession' and 'operational delivery profession' within the Civil Service.³⁰ In addition, more traditional concerns about the capability of government to control every

25 Department for Work and Pensions, "Housing Benefit Circular HB A15/2014: Real Time Information Bulk Data Matching Initiative – guide for local authorities," 2014.

26 House of Commons Public Administration Select Committee, *Leadership for the Long Term: Whitehall's Capacity to Address Future Challenges, Third Report of Session 2014-15*, March 2015.

27 Deloitte, *Making Digital Default: Understanding Citizen Attitudes*, April 2014.

28 Leonid Bershidsky, "Envy Estonia's Digital Government," *Bloomberg View*, 4 March 2015.

29 Cabinet Office and Civil Service Reform, *Civil Service Reform Plan Progress Report*, October 2014.

30 Civil Service, "Professional Networks," <http://www.civilservice.gov.uk/networks>, accessed on 28 May 2015.

aspect of delivery from Whitehall remain. Writing for *Reform* last year, Steve Reed MP questioned how “a single centralised government department [could] oversee 24,000 schools and make sure they are all meeting minimum standards, let alone the specific needs of the different communities they serve.”³¹

In any event, the pressure on departmental budgets over the coming five years will force a new approach. This should build on the excellent work on functional leadership started under the Coalition Government, with teams brought together with specific, complementary skill sets and remaining in post only for the duration of the project on which they are working. The final piece of the jigsaw, however, must be a clear focus on long-term outcomes, with policies designed and implemented within an over-arching wellbeing framework.

Putting the wellbeing of citizens at the heart of policy making would counter-balance the natural tendency to departmentalism and silo-working. It would also shift time horizons away from the short-termism imposed by five-year electoral cycles, where public spending priorities are too often focused on immediate concerns to the detriment of strategic investment for the future.^{32,33} As one Coalition Minister bluntly confessed to *Reform* in 2013: “The problem is that most Ministers wouldn’t know a strategy if it hit them in the eye. We’re tacticians, operators – completely unsuited to be strategic.”³⁴

2.2.1 A long-term fiscal rule

One area where the impact of short-term thinking has been most keenly felt in recent years is fiscal policy making. It is widely recognised that the last five years of fiscal consolidation has been, in the words of the Governor of the Bank of England Dr Mark Carney, “a drag on growth”³⁵ and hence economic wellbeing. In its latest Economic and Fiscal Outlook the OBR estimates that consolidation had reduced the level of GDP by around 1.5 per cent in 2013-14.³⁶

Yet the reason the Coalition Government chose to adopt a course of tight fiscal restraint is straightforward. Despite their best intentions, it seems politicians cannot be trusted to stick to the rules they set themselves. Successive administrations have discarded two sets of fiscal rules since the 2007 financial crisis and the latest iteration is likely to be short-lived (see Figure 4).

The root problem is that no Parliament can bind its successor. As *Reform* pointed out in *The Debt Ratchet* last year: “For a rule to work, future politicians must be as committed to it as those who pass it today. But, if they were so committed then the rule would be unnecessary: the politicians of the future would act as if it were in place of their own accord. Recent history demonstrates that that is not the case, which is why schemes to borrow a different rule from overseas are unlikely to help.”³⁷

In setting fiscal policy, it is important to recognise that prudence is a means to future wellbeing, not an end in itself. For fiscal policy to improve wellbeing in a sustainable way a new approach is required to re-focus the Government’s attention. That approach should frame fiscal decisions in such a way that they are made with a view to the long term. However, it must also allow the government of the day free rein to set fiscal policy or else it risks being abandoned.

31 Steve Reed, “Better Government Needs People, Not Politicians at the Centre,” *How to Run a Country: A Collection of Essays*, September 2014.

32 John Elvidge, *The Enabling State: A Discussion Paper*, December 2012.

33 House of Commons Public Administration Select Committee, *Leadership for the Long Term: Whitehall’s Capacity to Address Future Challenges, Third Report of Session 2014-15*, March 2015.

34 Andrew Haldenby, Tara Majumdar and Greg Rosen, *Whitehall Reform: The View from the Inside*, February 2013.

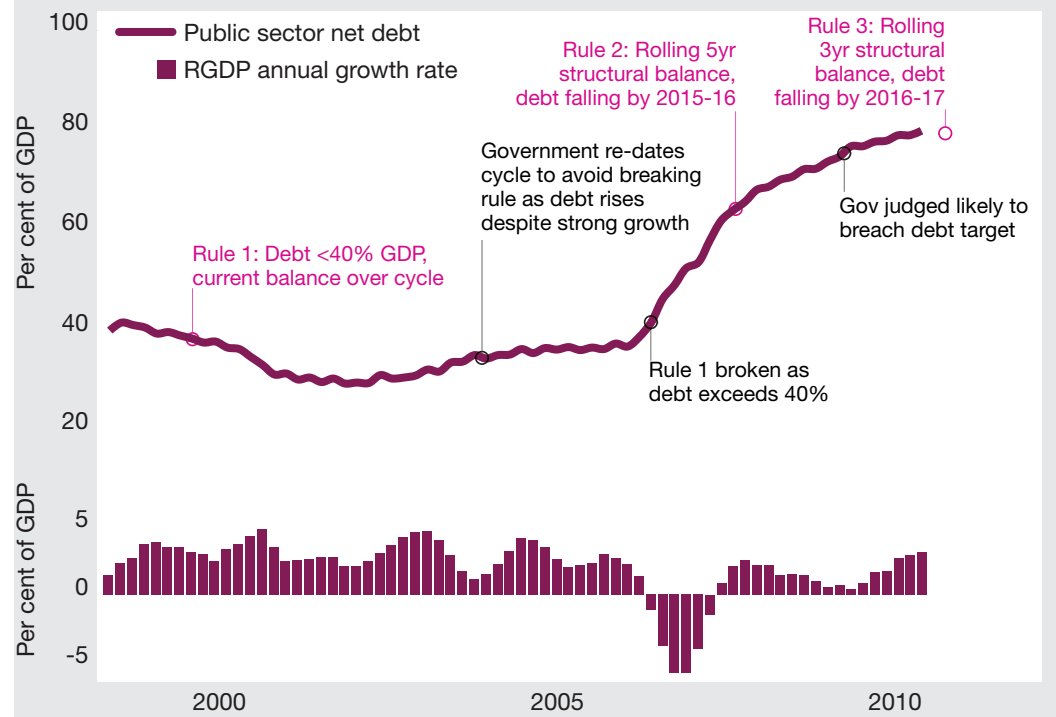
35 House of Commons Treasury Select Committee, *Minutes of Evidence*, Q87, 12 September 2013.

36 Office for Budget Responsibility, *Economic and Fiscal Outlook: March 2015*, March 2015.

37 Cathy Corrie, Clare Fraser and James Zuccollo, *The Debt Ratchet*, March 2014.

Figure 4: A brief history of UK fiscal rules

Source: Office for National Statistics (2015), Public Sector Finances



The solution is to require the Government to set a long-run debt target and a fixed timeframe for achieving it. The advantage of such an approach is that it puts fiscal sustainability at the core of the government's fiscal policy, rather than aiming for arbitrary interim targets as is done at present. In practice, the target level of debt is likely to be somewhere between 20 and 60 per cent of GDP, while the timeframe for achieving it would be in the order of 30 to 60 years. Subsequent administrations would be free to alter both the target and the timeframe. This is the approach taken in New Zealand and it has been remarkably successful at controlling debt, while allowing the Government the flexibility to support growth through the financial crisis.³⁸

Focusing on the outcome (lower debt) rather than the process (eliminating the deficit) is the right thing to do. The obvious drawback is that it still risks leaving the Government to mark its own homework. Independent oversight is needed to ensure confidence and credibility in the regime. However, the OBR has clearly established its authority and brought transparency to the monitoring of fiscal policy. It is now secure in its role and its expertise could therefore be relied upon to judge whether or not the Government's spending plans would put the public finances on track to meet the long-term debt rule.

In reality, the reforms to public services required to achieve sustainability may not be feasible in the course of one Parliament, so there also needs to be some short-run measures of progress. In fact, the OBR has already developed a measure of sustainability, the 'fiscal gap', which it defines as the "immediate and permanent change in the primary balance needed to achieve a certain, pre-determined debt-to-GDP ratio in a specific year."³⁹ For example, to achieve a debt-to-GDP ratio of 40 per cent over the next 50 years, the OBR estimates that a once-and-for-all policy tightening of 0.9 per cent of GDP in 2019-20 would be required on top of the cuts through to 2018-19 that the Coalition Government announced.⁴⁰

This measure of the fiscal gap could be complemented by other short-run measures of economic wellbeing chosen to help guide policy from year-to-year and to ensure that the

38 Teresa Ter-Minassian, *External Review of the Treasury's Fiscal Policy Advice*, May 2014.

39 Office for Budget Responsibility, *Fiscal Sustainability Report: July 2014*.

40 Ibid.

trade-offs between long-term prudence and short-term pain are visible both to policy makers and the public. A basket of such measures has been constructed by the ONS as part of its programme to develop a framework for measuring national wellbeing.⁴¹ These go beyond GDP growth and better represent the lived experience of households in the UK. For example, they measure the disposable income of households, rather than the value of production in the UK; they evaluate the distribution of income by supplementing averages with the median; and they assess the value of stocks available to households, rather than just the flows of income that are derived from them.

Recommendation

The Government should abandon short-run deficit rules that limit the planning horizon and replace them with an explicit long-run debt target, monitored by the Office for Budget Responsibility, alongside policy impacts on headline measures of economic wellbeing.

2.3 Conclusion

When in 2010 the Coalition Government commissioned the National Statistician to develop robust measures of national wellbeing, it took the first steps toward a radical, new approach to policy development and delivery. The Government now must build on these foundations, taking care to do so in a way that is genuinely inclusive and does not reduce the wellbeing of future generations.

This chapter has focused on how such an approach would improve the delivery of public services on the front line as well as providing a policy framework for the centre of government. As an example, it has shown how such a framework, based on the three principles of wellbeing, sustainability and inclusion, could help to ensure that the immediate challenges of fiscal consolidation are handled efficiently and equitably. Equally important, however, it has shown how this approach would ensure the country is better placed to manage the longer-term pressures on public finances.

41 Office for National Statistics, *Economic Well-Being: Framework and Indicators*, November 2014.

3

Health and social care

Cathy Corrie
Leo Ewbank

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Across the world, healthcare costs are rising faster than countries' ability to meet them. An ageing population and rising costs are stretching resources while patients are expecting a better, safer and more modern service. NHS England has made clear that without significant reform to the way the health service operates, the Government will need to find an additional £22 billion to fund the NHS by 2020.⁴²

Reforms to the NHS and social care should focus not on increasing 'inputs' but on improving outcomes for patients. This is the only route to both a high quality and sustainable health and care service.⁴³ As Professor Michael Porter said for *Reform* in 2014, "Value for patients means delivering excellent health outcomes, hopefully improving health outcomes, on the things that really matter to the patient, and doing that very, very efficiently. It's the relationship between the outcomes we deliver and how many pounds we have to spend to deliver those outcomes that really represents the true north of any healthcare delivery system."⁴⁴

This is a radically different way of thinking about the health service. As Professor Porter has explained, "Historically, the NHS has focused on measuring 'inputs' such as attendances, hospital admissions, and waiting times. These are easy to measure, but fail to capture whether the patient's care was good or bad, or even clinically effective."⁴⁵ Politicians continue to show their commitment to the NHS through more doctors or more money, not through better outcomes for patients. Only by re-orientating the health service around the outcomes that matter to patients and delivering them at the lowest possible cost can the Government and the NHS successfully deliver the £22 billion of savings required.

Achieving better health outcomes is a principal factor in improving not just the sustainability of public spending but individual wellbeing as well. Empowering individuals to live healthier lives promotes better social relationships, employment prospects and overall life satisfaction.⁴⁶ In light of the size of the budget and escalating projections of future costs, value for money in health spending goes a long way towards the sustainability of public spending and to protecting the wellbeing of future generations.

42 NHS England, *Five Year Forward View*, October 2014.

43 Michael Porter and Thomas Lee, "The Strategy That Will Fix Health Care," *Harvard Business Review*, October 2013.

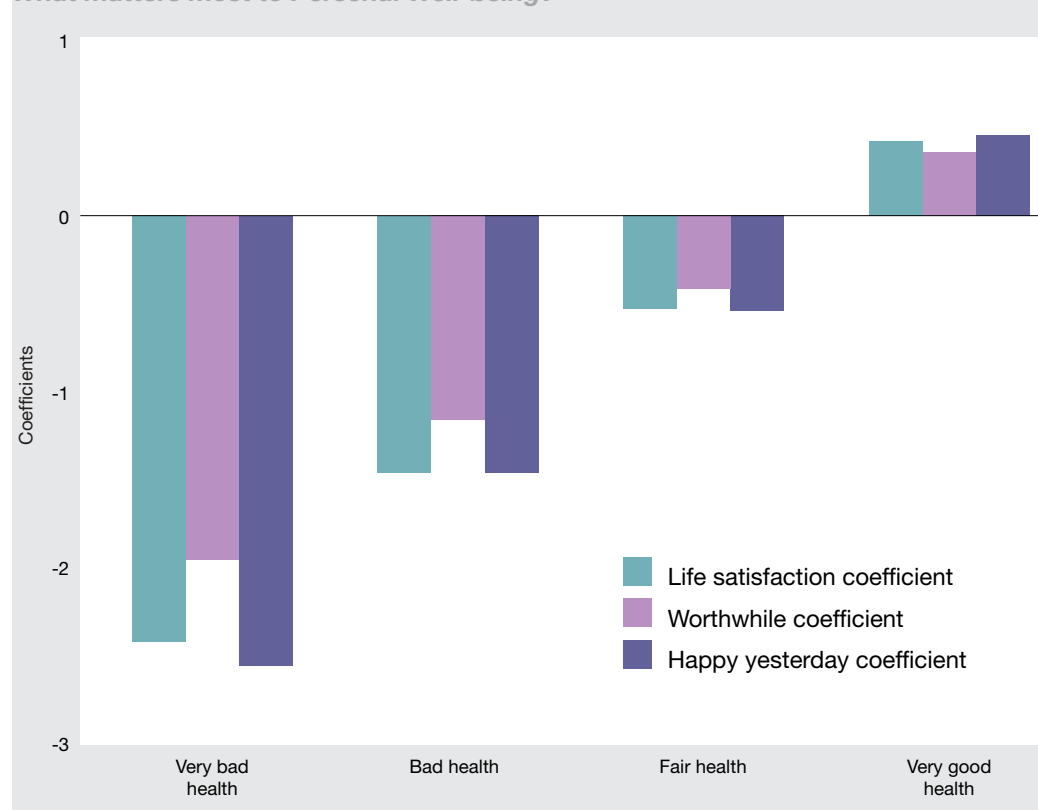
44 Michael Porter, *Transcript: A Strategy to Fix Healthcare*, January 2014.

45 Michael Porter and Emma Stanton, "Why Outcomes Measurement Is the Key to Fixing Healthcare," <http://www.reform.uk/reformer/why-outcomes-measurement-is-the-key-to-fixing-healthcare/>, accessed on 8 June 2015.

46 Gus O'Donnell, Angus Deaton, Martine Durand, David Halpern and Richard Layard, *Wellbeing and Policy*, March 2014.

Figure 5: How self-reported health relates to personal wellbeing

Source: Office for National Statistics (2013), *Measuring National Well-being – What matters most to Personal Well-being?*



3.1 A strategy to improve outcomes

3.1.1 Integration and new models of care

As the population ages, individuals are living longer with one or more long-term conditions. People over the age of 65 account for 51 per cent of local authority spending on adult social care and two-thirds of the primary care prescribing budget, while 70 per cent of primary and acute care spending goes on people with long-term conditions.⁴⁷ How well services meet these needs depends on all parts of the system working together.

This means taking “decisive steps to break down the barriers in how care is provided between family doctors and hospitals, between physical and mental health, between health and social care.”⁴⁸ The new models of care set out by NHS England are an important step towards redesigning care out of organisational silos and around patient pathways across whole health economies. In doing so care is tailored around the patient, not the providers or clinicians who treat them.⁴⁹ Integration at the individual level through personal budgets and integrated personal commissioning has the potential to give patients this choice and control over their care but has yet to achieve scale across health and care.⁵⁰

Crucially the better coordination of care around the highest users of health and care services will require a shift in the default setting of care, from acute hospitals into more cost-effective and clinically appropriate community based and preventative alternatives.

⁴⁷ Department of Health, *Long Term Conditions Compendium of Information: Third Edition*, 2012; Health and Social Care Information Centre, *Personal Social Services: Expenditure and Unit Costs, England, 2013-14 Final Release*, December 2014.

⁴⁸ NHS England, *Five Year Forward View*.

⁴⁹ Ibid.; KPMG, *Creating New Value with Patients, Carers and Communities*, 2014.

⁵⁰ Chris Hatton, John Waters and Martin Routledge, *National Personal Budgets Survey 2013: Survey of Main Findings and next Steps*, 2013.

The majority of the NHS budget continues to be spent on hospitals and the proportion is rising.⁵¹ Social care is a crucial part of a system which focuses on keeping people healthy and independent in the home yet it has been underfunded for a number of years in comparison to large spending increases on the NHS.⁵² Since 2010 the social care budget was cut by 31 per cent while NHS spending was protected.⁵³ The Local Government Association (LGA) expects a funding gap of £4.3 billion by the end of the current Parliament.⁵⁴

Table 1: NHS and social care spending in billions 1999-2009, 2009-10 prices
Source: Cawston *et al.* (2013), *Flat-lining: Lack of progress on NHS reform*.

	1999-00 (£bn)	2009-10 (£bn)	Change (%)
NHS	51.4	99.8	94.3
Social care	11.4	16.8	47.3
Total	62.8	116.6	85.8

Recommendation

The NHS should accelerate service redesign to better coordinate services and expand capacity beyond acute hospitals, including social care. It should extend the scope and uptake of personal budgets across health and care to give patients greater choice across services.

3.1.2 Prevention and patient engagement

It has long been recognised that by seeking to prevent illness, rather than just treating sickness when it occurs, the NHS can avoid preventable costs and manage demand on existing services. The landmark Wanless Review in 2002 argued that engaging patients and the public in their health and care was the only route to sustainable healthcare spending.⁵⁵ Yet 13 years since the review, progress has been limited, with improvements in public health marginal and in some areas, such as obesity, in decline.

Engaging patients and the public in the decisions that affect their health could help unlock this potential. An international body of evidence now shows that involving patients in their health leads to better outcomes and better use of resources.⁵⁶ There is real appetite to do more and in many cases patients already are. National patient surveys show that half of hospital inpatients and one in three people using GP services were not as involved in decisions about their care as they wanted to be.⁵⁷ Citizens already invest more in their health and wellbeing than ever before while 1 in 20 Google searches is health related. Tapping into this momentum could help the NHS realise savings of nearly £2 billion by 2020-21, according to *Reform's* research.⁵⁸

Considering the health and wellbeing of patients not just in moments of acute illness but in their daily lives places new importance on self-care. In light of the growing prevalence of long-term conditions, equipping patients with the tools to effectively manage their own conditions can improve health outcomes and reduce demand on services. As Simon Stevens outlined in his maiden speech as Chief Executive of NHS England, "At a time when resources are tight we are going to have to find new ways of tapping into...sources of renewable energy", by "boosting the critical role that patients play in their own health

51 Cathy Corrie and William Mosseri-Marlio, *Progress on NHS Reform*, March 2015.

52 Christine de la Maisonnette and Joaquim Oliveira Martins, *Public Spending on Health and Long-Term Care: A New Set of Projections*, June 2013.

53 BBC Online, "Adult Social Care Firms Struggling for Staff due to Cuts," 4 June 2015.

54 Local Government Association, *Adult Social Care Funding: 2014 State of the Nation Report*, October 2014.

55 Derek Wanless, *Securing Our Future Health: Taking a Long-Term View*, April 2002.

56 The Commonwealth Fund, *International Perspectives on Patient Engagement: Results from the 2011 Commonwealth Fund Survey*, March 2012; National Voices, "Prioritising Person-Centred Care: the Evidence," <http://www.nationalvoices.org.uk/evidence>, accessed on 5 June 2015.

57 Care Quality Commission, *National Findings from the 2013 Inpatients Survey*, 2013.

58 Cathy Corrie and Amy Finch, *Expert Patients*, February 2015.

and care.”⁵⁹ Technology has the potential to allow patients to do jobs previously carried out by clinicians, such as diabetics measuring their blood sugar and administering insulin. Other industries, such as banking and retail, offer relevant lessons for how technology and data can be used to harness the contribution of the consumer, such as self-checkout, and better understand customers’ needs, for instance via loyalty cards.⁶⁰

Recommendation:

The NHS should make prevention its core business. It should look to outside expertise and learn the lessons of industries such as banking and retail to accelerate patient engagement.

3.1.3 Competition

According to a poll by Populus for *Reform*, nearly 60 per cent of people believe it does not matter whether NHS services are public or private, as long as they are free at the point of use.⁶¹ In this way the goal of better outcomes can and should allow for flexibility as to who delivers them. As Catherine Davies, Executive Director of Competition and Cooperation at Monitor, has argued, “I don’t really see how a policy that discriminates in favour of a particular type of provider is the right way to get the best outcome for patients...What’s most important is that you have someone who can provide the services that meet the needs of patients in a particular area.”⁶² Evidence from the OECD, IMF and others suggests that competition can be used “effectively to create a system that’s responsive and to incentivise high quality and efficient care”.⁶³

Already commissioners are using competition to deliver integration. A growing number of Clinical Commissioning Groups have begun to use outcomes-based contracts to open up contracts to the provider best placed to coordinate care across a patient pathway, whether public or private. In Bedfordshire, Circle Partnership is coordinating services for patients with musculoskeletal conditions and in East Staffordshire, Virgin Care is doing the same for their frail and elderly population.⁶⁴

This should be extended further to out-of-hospital care. Evidence from this country and abroad clearly shows that supporting patients to exercise choice between providers and GPs can enhance patient wellbeing and act as a powerful driver for quality care.^{65,66} In general practice barriers to entry and exit have seen few new entrants in recent years. A recent survey by Monitor found that almost a third of patients think they do not have alternative GP practices to choose from and only 16 per cent of patients have considered using alternatives.⁶⁷ Already the private sector is going straight to the consumer to offer services not yet provided by the NHS, such as ‘virtual’ access to primary care.⁶⁸ Encouraging alternative providers from outside the NHS and giving patients meaningful choice could spread these kinds of innovations and improve access through better services, not just more GPs.

59 Simon Stevens, “Full Text of Simon Stevens’ Speech,” 1 April 2014.

60 Paul Corrigan and Mike Parish, *Going with Change: Allowing New Models of Healthcare to Be Provided for NHS Patients*, June 2014.

61 Michael Porter, “Two Thirds of Voters Oppose New NHS Tax,” <http://www.reform.uk/publication/two-thirds-of-voters-oppose-new-nhs-tax/>, accessed on 8 June 2015.

62 Will Hazell, “Monitor: Role for Competition in New Provider Landscape,” *Health Service Journal*, 28 November 2014.

63 Isabelle Jourmard, Christophe Andre and Chantal Nicq, *Health Care Systems: Efficiency and Institutions*; Carlo Cottarelli, *Macro-Fiscal Implications of Health Care Reform in Advanced and Emerging Economies*, May 2010; Will Hazell, “Monitor: Role for Competition in New Provider Landscape,” *Health Service Journal*, 28 November 2014.

64 James Illman, “Circle Named Preferred Bidder for Musculoskeletal £120m Contract,” *Health Service Journal*, 12 August 2013; Shaun Lintern, “Revealed: Virgin Handed £280m Staffordshire Contract,” *Health Service Journal*, 26 March 2015.

65 Zack Cooper, Stephen Gibbons, Simon Jones and Alistair McGuire, “Does Hospital Competition Save Lives? Evidence from the English NHS Patient Choice Reforms,” *The Economic Journal*, Vol. 121, No. 554 (August 2011).

66 Valentina Zigante, *Consumer Choice, Competition and Privatisation in European Health and Long-Term Care Systems*, 2013.

67 Monitor, *Improving GP Services: Commissioners and Patient Choice*, June 2015.

68 Corrie and Finch, *Expert Patients*; James Illman, “Parsa Launches New ‘virtual Health Service’ App,” *Health Service Journal*, 28 April 2014.

Recommendation:

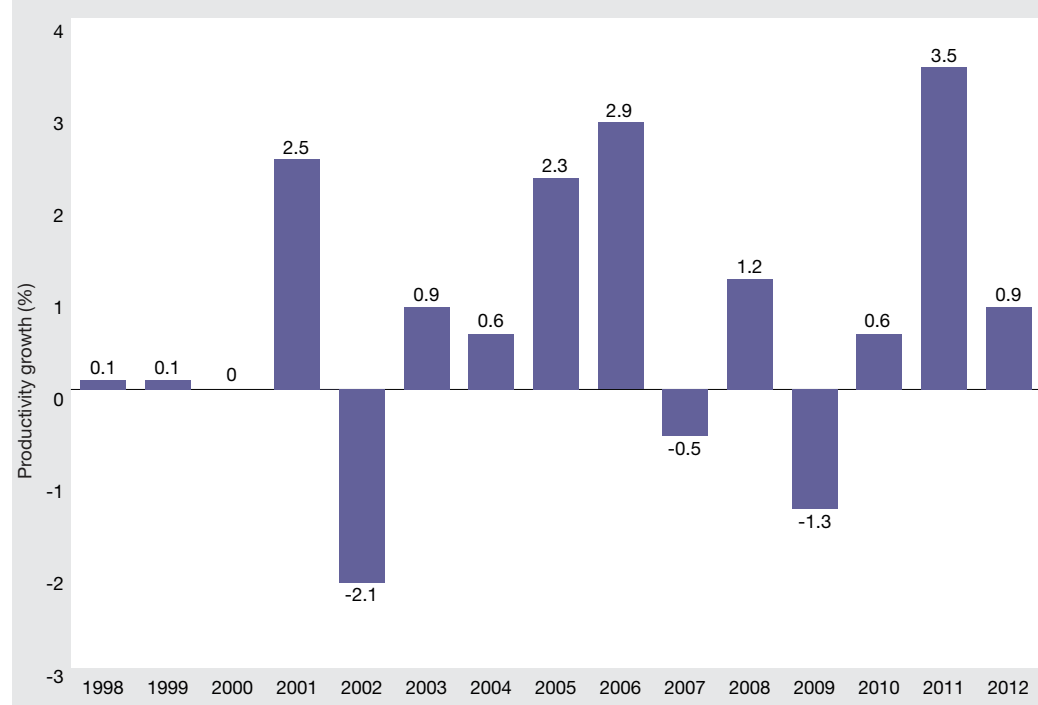
The Government should promote diversity of provision to drive greater efficiency, innovation and choice for patients.

3.2 High value care**3.2.1 Productivity**

Delivering better health outcomes for less cost relies on highly productive services. In this the NHS and social care have traditionally fallen short. Official estimates show annual UK healthcare productivity growth averaged 0.6 per cent from 1998 to 2008 and 1.6 per cent from 2010 to 2012, though data from the acute sector suggests this has since fallen.⁶⁹ This falls well short of the 4 per cent per year identified by the King's Fund and the Institute for Fiscal Studies (IFS) as necessary to close the gap between resource and demand.⁷⁰ Adult social care productivity has fared even worse, averaging at -1.4 per cent between 1998 and 2008, falling to -2.3 per cent between 2010 and 2012.⁷¹

Figure 6: UK healthcare productivity, 1998-2012

Source: Office for National Statistics (2015), *Public Service Productivity Estimates: Healthcare, 2012*



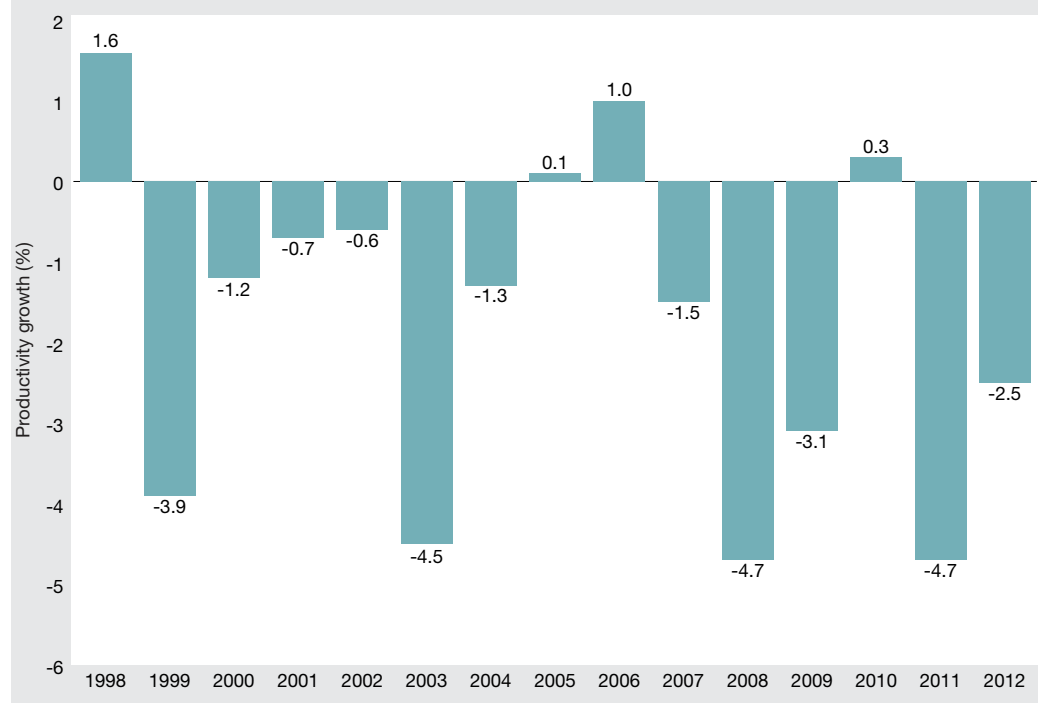
69 Office for National Statistics, *Public Service Productivity Estimates: Healthcare, 2012*, January 2015; Sarah Lafond, Anita Charlesworth and Adam Roberts, *Hospital Finances and Productivity: In a Critical Condition?*, April 2015.

70 McKinsey & Company, *Achieving World Class Productivity in the NHS 2009/10 – 2013/14: Detailing the Size of the Opportunity*, March 2009.

71 Office for National Statistics, *Public Service Productivity Estimates: Total Public Services, 2012*, February 2015.

Figure 7: Adult social care productivity, 1998-2012

Source: Office for National Statistics (2015), *Public Service Productivity Estimates: Total Public Services, 2012*



While in 2010 the need for greater efficiency was recognised by the Government, in the NHS and social care the efficiencies made were not sustainable.⁷² In the NHS, savings were achieved predominantly from short-term measures, such as reducing the tariff (the price paid to hospitals) and freezing staff pay.⁷³ As the NAO and the Health Select Committee have noted, underneath these short-term cuts, trusts have not changed the way they operate to become permanently more productive.⁷⁴ David Bennett, Chief Executive of Monitor, has criticised hospital savings plans as “not yet as stretching as they need to be”.⁷⁵ The result is a hospital sector with a deficit of £822 million in 2014-15, expected to rise to £2 billion this year.⁷⁶ In social care three-quarters of the fall in spending was achieved by reducing the amount of care provided. While this could have been in part through the prevention of the need for care, it is likely that this was largely the result of changes to eligibility or reductions in service, with less care provided to fewer people rather than changing the way services operate.⁷⁷

As such, there is clearly an opportunity to extract greater value from existing budgets. In the NHS, the *Five Year Forward View* (5YFV) has pledged to achieve 2 to 3 per cent annual productivity growth this Parliament. This target can only be achieved by both eliminating variation between the worst and the best providers and fundamentally transforming the way care is delivered across the board.⁷⁸

⁷² HM Treasury, *Spending Review 2010*, October 2010.

⁷³ House of Commons Health Select Committee, *Public Expenditure on Health and Social Care, Seventh Report of Session 2013-14*, February 2014.

⁷⁴ National Audit Office, *Adult Social Care in England: Overview*; House of Commons Health Select Committee, *Public Expenditure on Health and Social Care*.

⁷⁵ Crispin Dowler, “Exclusive: Monitor Ramps up Challenge to FTs over Spending,” *Health Service Journal*, 29 May 2015.

⁷⁶ BBC Online, “NHS Trusts’ Deficit Rises to £822m,” 22 May 2015.

⁷⁷ National Audit Office, *Adult Social Care in England: Overview*.

⁷⁸ Sarah Lafond, *Current NHS Spending in England*, January 2015.

Table 2: Scope for productivity improvement in the NHS

Area for reform	Potential savings
Reconfigure services	Consolidation of specialist services and reconfiguration of emergency care has been shown to improve productivity. ³⁸ Hospital chains could see the sharing of back office costs. ³⁹ Integration through new models of care will streamline patient pathways and reduce duplication, though the value is largely unquantified. ⁴⁰
Procurement	Variation in hospital procurement currently leads to the same materials being purchased at prices which vary by up to 50 per cent. ⁴¹
Estates	350 surplus sites worth £7.5 billion. Estate rationalisation could yield up to £1.1 billion savings in the acute sector alone. ⁴²
Workforce	There is no consistency in productivity of consultants within and between hospitals. Wards of similar workloads often have unexplained differences in nurse-bed ratio of 50 per cent. ⁴³
Prevention and patient engagement	Patient engagement could realise savings of nearly £2 billion by 2020-21. Shared decision-making, self-care and personal budgets can reduce high cost interventions and reduce hospital admissions. ⁴⁴
Poor quality	Adverse (preventable) events cost the NHS £1-£2.5 billion a year. Poor coordination can cause costs through delayed discharges, readmissions, adverse incidents and medication errors. ⁴⁵
Data and transparency	Collecting data on the true cost of a patient's cycle of care drives better value care. ⁴⁶ Transparency on cost is a key driver in identifying and eliminating variation. ⁴⁷

As the Audit Commission and NAO have noted, there is scope to improve productivity in adult social care.⁸⁹ Indeed estimates of the social care funding gap by the LGA and ADASS are based on an assumption of 1.5 per cent productivity growth, tapering off to 1 per cent further on in the Parliament. As with health, this represents a significant step change to current rates.⁹⁰ Social services leaders and experts have identified a number of areas for further reform including better procurement, increased prevention, shifting activity to cheaper settings, stopping unnecessary services, increased personalisation and better use of technology by the workforce and in patient self-care.⁹¹

Recommendation

The Government should make sustainable improvements to health and social care productivity a priority.

3.2.2 Financing

NHS

Every health and care system is built on a mix of public and private funding, yet the NHS makes exceptionally little use of private contributions to the cost of care. Other countries have introduced charges across a broader range of services and across a broader section of the population. Across the OECD, all countries charge for prescriptions; two

79 Ibid

80 David Dalton, *Examining New Options and Opportunities for Providers of NHS Care: The Dalton Review*, December 2014.

81 NHS England, *Five Year Forward View*.

82 National Audit Office, *The Procurement of Consumables by NHS Acute and Foundation Trusts*, February 2011.

83 Monitor, *Closing the NHS Funding Gap: How to Get Better Value Health Care for Patients*, 2013; Crispin Dowler, "Carter to Unveil Hospital Efficiency 'Index,'" *Health Service Journal*, 7 June 2015.

84 Ibid.

85 Corrie and Finch, *Expert Patients*.

86 Frontier Economics, *Exploring the Costs of Unsafe Care in the NHS*, October 2014.

87 Porter and Lee, "The Strategy That Will Fix Health Care."

88 Department of Health, *Better Procurement Better Value Better Care: A Procurement Development Programme for the NHS*, August 2013.

89 National Audit Office, *Adult Social Care in England: Overview*.

90 Local Government Association, *Adult Social Care Funding: 2014 State of the Nation Report*.

91 Steffan Torp, Elizabeth Hanson, Solveig Hauge, Ingun Ulstein and Lennart Magnusson, "A Pilot Study of How Information and Communication Technology May Contribute to Health Promotion among Elderly Spousal Carers in Norway", *Health and Social Care in the Community*, Vol. 16, No. 1 (2008); ADASS, *ADASS Budget Survey Report 2014: Final*, July 2014.

thirds charge for GP appointments and half charge for elements of hospital care.⁹² By contrast, the OECD has noted that NHS patients benefit from an “especially high level of financial protection from the consequences of illness”.⁹³

Making greater use of private payment in the NHS could raise additional revenue and help manage demand on services. By introducing a financial charge, patients would be incentivised to use services more responsibly and to demand a more responsive, consumer friendly service in return. A survey commissioned by HealthWatch England found that nearly a fifth of people admitted to using A&E for a non-emergency issue while 20 per cent of GP appointments are taken up by minor ailments, such as the common cold.⁹⁴ While many have raised concerns that charging could deter those in genuine need from seeking medical help, robust exemptions as exist in other health systems can ensure that those needing advice are not wrongly deterred. For those with long-term conditions who would regularly use services, costs could be capped by a quarterly or annual limit, as the Prescription Prepayment Certificate currently does.

Changes to the level and base of prescription charges would be the simplest and most immediate reform to charging in the NHS. In the UK, approximately 60 per cent of the population is exempt from prescription charges and 9 in 10 prescriptions are dispensed free of charge. Not only does this raise little in the way of revenue but it is fundamentally inequitable; nearly 60 per cent of drugs are dispensed free to people over the age of 60 regardless of income.⁹⁵ As in other countries, policymakers could go on to examine the case for charges in primary and then secondary care. Some NHS services provided at the end of life could be subject to the same package of means-tested support used for social care to integrate those services.

Table 3: Summary of options for reform (2013 calculations)

Source: Cawston and Corrie (2013), *The cost of our health*.

Reform	Additional revenue
Reform to prescription charges	£124 million to £1.4 billion
£10 flat rate charge for GP consultations	£1.2 billion
£10 daily “hotel” charge for overnight hospital stays	£96 million to £193 million
£10 fine for missed outpatient hospital appointments	£55 million

Recommendation

The Government should raise the level of the prescription charge and reform exemptions. It should go on to consider charges for parts of primary and secondary care.

Social care

Containing social care spending as demand rises and costs grow means a balance between public and private contributions will have to continue. In the first instance, this means prioritising public resources towards a smaller cohort of people with the highest needs and the lowest means. This is far from unusual, with coverage being increasingly targeted towards health, nursing care and personal care and away from domestic care and practice help across the OECD.⁹⁶ It is important, however, that a range preventative services also continue to be delivered by local authorities to prevent the escalation of lower care needs.

Secondly, it should mean that housing assets play a part in funding long-term care.⁹⁷ The

92 Thomas Cawston and Cathy Corrie, *The Cost of Our Health: The Role of Charging in Healthcare*, November 2013.

93 Peter Smith and Maria Goddard, *The English National Health Service: An Economic Health Check*, July 2009.

94 HealthWatch, “Nearly a Fifth Confess to Knowingly Using A&E for Non-Emergencies,” 4 March 2014; Gareth Iacobucci, “Fifth of Appointments Wasted on ‘Worried Well’,” *Leading GPs Warn*, *Pulse*, 16 March 2010.

95 Health & Social Care Information Centre, *Prescriptions Dispensed in the Community: England 2002-12*, July 2013.

96 OECD, *Help Wanted? Providing and Paying for Long-Term Care*, May 2011.

97 Partick Nolan, Lauren Thorpe and Kimberley Trehwhitt, *Entitlement Reform*, November 2012.

Dilnot Commission into the funding of social care sought to protect individuals from having to sell their home in the face of high care costs, regardless of their means.⁹⁸ This is unsustainable and inequitable. The value of housing wealth owned by people over the State Pension Age could increase by 40 per cent from £907 billion in 2009 to £1.3 trillion by 2030 (in 2009 prices).⁹⁹ Moreover much of this value has been unearned, with windfall gains from house price increases much greater than earnings or wider economic growth. The effect of the Care Act, which implemented many of Dilnot's recommendations, will therefore be to disproportionately benefit the better off; levying younger workers faced with an unfavourable housing market rather than asking elderly cohorts to contribute to the costs of care out of housing assets in order to address the growing funding shortfall.¹⁰⁰ This is neither inclusive nor sustainable.

Unlocking the housing assets held by older people will require an effective equity release market. People need to be able to use their assets to help pay for the cost of their social care, and to release money to adapt their homes (thus staying in their homes longer) and to support their incomes. While local authorities recognise the need for elderly people to be able to downsize their homes into suitable properties to remain independent at home for as long as possible, the housing stock is out of sync with this growing need.¹⁰¹ This has knock on benefits for services. Providing adaptations to support an older person to remain at home for just one year, for example, can save £28,000 on long-term care costs and help prevent hospital readmission.¹⁰² Yet while some schemes exist they are little used. Currently only 8 per cent of people who take out equity release use it to pay for long-term care.¹⁰³

Recommendation

The Government should maintain means testing of long-term care funding and draw on housing assets, as well as income, to support this.

3.3 Priorities for the Government

The 5YFV offers a radical vision of reform to address the financial and quality challenge through new more integrated models of care, a “radical upgrade” in prevention and public health, engaging patients in their care, and raising efficiency across the system. The challenge now is one of swift and successful implementation. Above all this means unprecedented change for the health workforce.

There can be no sustainable NHS without a more productive workforce. The workforce is the largest cost to the health service, accounting for half the budget and two thirds of provider expenditure.¹⁰⁴ Recent years have seen unprecedented growth in numbers, with headcount rising by almost a third from 2000 to 2010.¹⁰⁵ While at the start of the last Parliament numbers began to fall, in the wake of the 2012 Francis Inquiry and concerns around quality of care this trend reversed. Between 2012 and 2014 the workforce grew by 2.2 per cent, in stark contrast to the rest of the public sector.¹⁰⁶ This is the principal factor behind the rapid deterioration in hospital finances.¹⁰⁷

98 Dilnot Commission, *Fairer Care Funding: The Report of the Commission on Funding of Care and Support*, July 2011.

99 Pensions Policy Institute, *Retirement Income and Assets: How Can Housing Support Retirement?*, 2009.

100 House of Lords Select Committee on Public Service and Demographic Change, *Ready for Ageing?*, March 2013.

101 All Party Parliamentary Group on Housing and Care for Older People, *Living Well at Home Inquiry*, July 2011.

102 LaingBuisson, *Care of Elderly People: UK Market Survey 2008*, 2008.

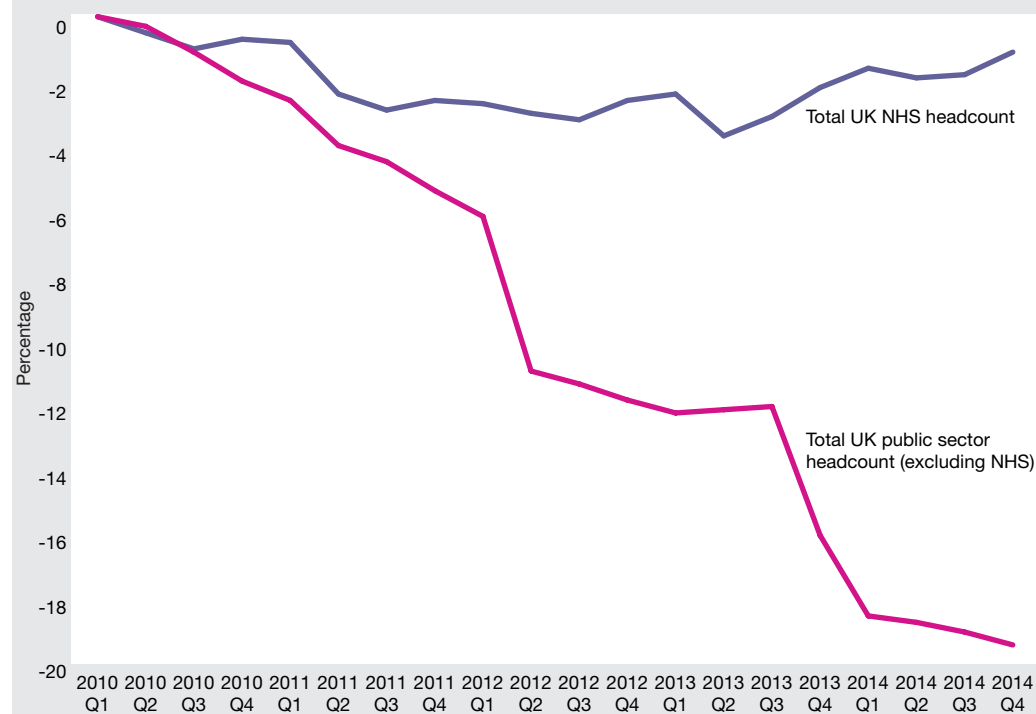
103 Patrick Nolan, *You're a Long Time Retired: Making the Most of Financial and Housing Assets at Retirement*, 2013.

104 Corrie and Mosseri-Marlio, *Progress on NHS Reform*; Lafond, Charlesworth and Roberts, *Hospital Finances and Productivity*.

105 Office for National Statistics, *Public Sector Employment, Q4 2014*.

106 Health and Social Care Information Centre, *NHS Workforce Statistics in England, Summary of Staff in the NHS: 2004-2014, Overview*, March 2015.

107 Lafond, Charlesworth and Roberts, *Hospital Finances and Productivity*.

Figure 8: Percentage change in total public sector and NHS workforces, 2010-2014Source: Office for National Statistics (2015), *Public Sector Employment, Q4 2014*; Reform calculations.

Better quality care for patients will require “professionals to work in new ways.”¹⁰⁸ The majority of clinical professionals continue to work in acute hospitals, with hospital consultants increasing around three times faster than GPs. Community based professionals and those working in areas such as learning disabilities and mental health are scarce.¹⁰⁹ Current terms and conditions have disincentivised out of hours working to the detriment of patients. The shift towards integrated delivery and seven day working means that traditional job roles and inflexible contracts will have to be challenged.

International health systems with workforce shortages have shown how changing the skill mix of the workforce can dramatically improve quality and value for money.¹¹⁰ Hospitals such as Salford Royal NHS Foundation Trust have raised quality, improved financial performance and raised staff engagement through rigorous performance management and linking pay increments to performance.¹¹¹ Achieving this kind of reform to the workforce will be key to unlocking a high value NHS.

Recommendation

The Government should reverse rising workforce numbers by improving the productivity of existing staff. It should challenge traditional job roles and terms and conditions to ensure staff have the right skills in the right place for patients.

¹⁰⁸ NHS England, *Integrated Care and Support Pioneer Programme: Annual Report 2014*, 2015.

¹⁰⁹ NHS England, *Five Year Forward View*.

¹¹⁰ Cawston, *Aravind Eye Care Case Study: High Volume, Specialist Eye Care in India*, 2013.

¹¹¹ Thomas Cawston, Andrew Haldenby and Nick Seddon, *Doctors and Nurses*, November 2012.

3.4 Conclusion

Reforming the NHS and social care is one of the defining challenges for the new Government. An ageing population and the rising cost of care is stretching budgets to their limits. In the long term it is the most significant threat to the sustainability of the public finances. The temptation remains for governments to pledge more ‘inputs’, whether more doctors or more money. What really matters to the wellbeing of current and future patients, however, is changing the service to deliver better outcomes and doing so at the lowest possible cost. This should mean a health and care service coordinated around empowered patients, focused on preventing illness as well as treating it. It should mean a radical new push on productivity and an honest conversation about the sustainability and equity of the financial foundations of the service. Flexibility as to who delivers these better value services should be encouraged.

In his first speech on NHS reform this Parliament, the Prime Minister recognised this need for high value care. Future success, he argued, cannot just depend on additional investment: “in return the NHS must step up. There is no choice between efficiency savings and quality of care.”¹¹² This will mean difficult changes, most of all for the NHS employees whose actions, terms and conditions determine what the service can achieve. Last Parliament departments such as the Home Office demonstrated that better services could be delivered for less. The NHS and social care must now follow suit.

¹¹² David Cameron, “Plans for a seven-day NHS,” 18 May 2015.

4

Education

Amy Finch
James Zuccollo

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The greatest challenge for the education sector this Parliament is to raise school pupils' achievement at a lower cost to the taxpayer. This will benefit all public service users by maximising the impact of school education and freeing up funds for other sectors, such as college and further education. Yet it will not be easy for schools. The Government's commitment to protect cash spending per pupil implies a significant real terms squeeze, and pay rises and changes to employers' contributions are expected to push school costs up. Unless the Government enables the school system to provide better value for money, the performance of English pupils will continue to dwindle in international comparisons – and every child will be worse off because of it.

The Coalition Government sought to raise achievement by extending autonomy to more schools. Its predecessor attempted it through large increases in public investment. Neither policy has improved value for money. Previous research by *Reform* found no simple link between schools' spending and their pupils' results, indicating that schools could, in theory, improve results without receiving more money.¹¹³ This chapter finds that education productivity has almost certainly been over-estimated due to grade inflation. While it is not known how much annual grade rises represent real or inflated improvements in pupils' education, even a modest estimation finds that education productivity has fallen rather than risen in recent years. In other words, the amount of time and effort exerted on education is not being translated into better teaching.

A new approach is needed that maximises the value created by every teacher and school, thereby improving wellbeing. As the Director for Education and Skills at the OECD, Andreas Schleicher, has said, "[t]he wellbeing of individuals and nations depend on nothing more than on what people know and what they can do with what they know."¹¹⁴ Acquiring knowledge, skills and competencies lifts earnings, improves trust between people and facilitates the development of shared cultural norms. Higher levels of education improve physical health and increase personal fulfilment. Together and separately, these effects – higher earnings, better health and greater fulfilment – generate higher levels of individual wellbeing.

Improving wellbeing in the English education system requires a focus on autonomy, accountability and funding. Both the World Bank and OECD consider autonomy and accountability to be important factors in improving pupils' outcomes, although the impact they report is contingent on the level and type of autonomy and accountability.^{115,116} To maximise wellbeing from these policy levers, the Government should aim to ensure:

- More autonomy: by encouraging schools to use their autonomy to innovate, the future challenges facing the school system will be addressed more effectively and at a lower cost.
- Better accountability: by improving school accountability, schools will focus on raising achievement for all, but particularly for the least advantaged.
- Fairer funding: a consistent and fair funding formula would reallocate resource to the most disadvantaged pupils and allow a better comparison of schools' relative value for money.

The Coalition Government made some progress on school accountability and autonomy, but more is possible. While it championed school and professional autonomy, it did not create the right environment for schools and teachers to use their autonomy to innovate. And while it reformed the school accountability system to focus schools' resources on all pupils, rather than just some, it did not reform school funding to ensure a consistent distribution of resources to pupils in different parts of the country. Moreover, by

¹¹³ Lauren Thorpe, Kimberley Trehitt and James Zuccollo, *Must Do Better: Spending on Schools*, Reform, May 2013.

¹¹⁴ Andreas Schleicher, "Don't Give Up on Education for All," *The Huffington Post*, 2 April 2014.

¹¹⁵ Gustavo Arcia, Kevin Macdonald, Harry Anthony Patrinos and Emilio Porta, "School Autonomy and Accountability," *System Assessment for Benchmarking Education for Results, Regulatory and Institutional Framework*, World Bank, Human Development Network, Washington, DC, 2011.

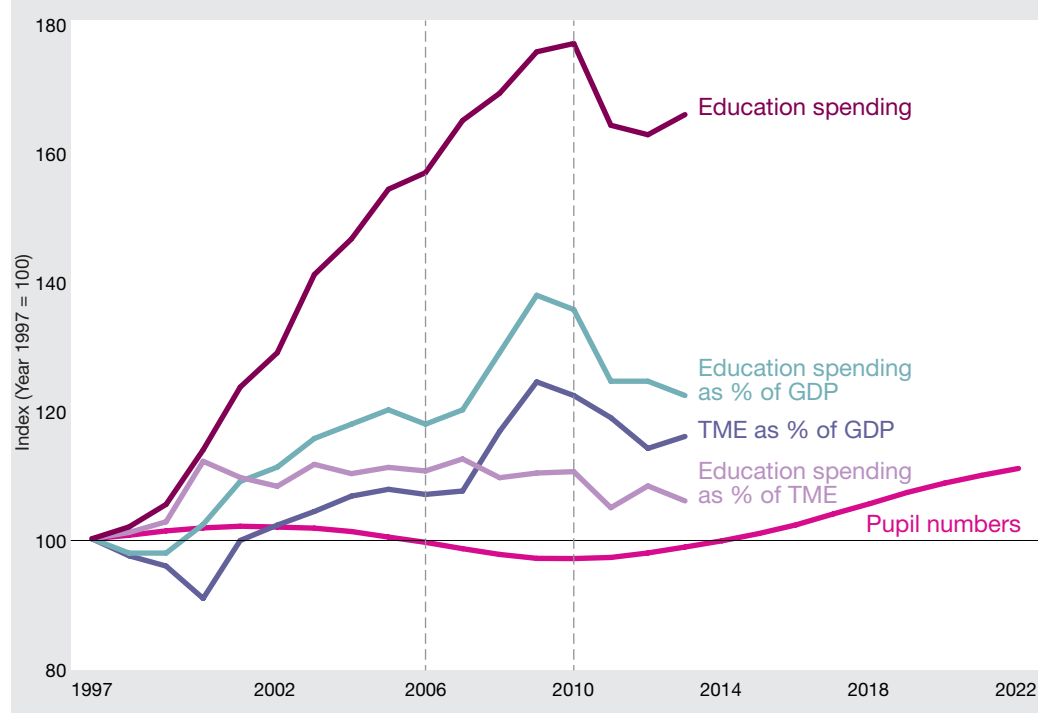
¹¹⁶ OECD, *School Autonomy and Accountability: Are They Related to Student Performance?*, 2011.

maintaining the ringfence on the schools budget, the Coalition prevented an honest discussion about how best to maximise wellbeing from this budget and across other areas of education spending.

4.1 The case for reform

The education system in England has a productivity problem. Productivity in education refers to the amount of activity needed within the sector to deliver the same standard of education to the same number of people. On a crude interpretation, this productivity problem has been created by coincident spending rises and falls in pupil numbers. Figure 9 shows that total spending on education rose year on year between 1997 and its height in 2010, both in real terms and as a percentage of GDP. The gradients show that education spending grew fastest between 2006 and 2010, during which period pupil numbers fell. Between 1997 and 2013, spending rose by 166 per cent whereas pupil numbers fell by 1 per cent.

Figure 9: Trends in education spending and pupil numbers⁵
 Sources: HM Treasury (2014), *Public Expenditure Statistical Analyses*; Department for Education (2014), *National Pupil Projections*; Reform calculations.



Since 2010, pupil numbers have been rising steadily, and are due to rise by 8 per cent over the next Parliament (see Figure 9). This will place significant pressure on existing and planned resource and capital budgets for schools. While the Government has committed to protecting cash spending per pupil, the IFS has estimated that this will result in a 7 per cent real terms cut per pupil.¹¹⁷ Accounting for increases in National Insurance, pension contributions and public sector earnings growth, the real terms cut is estimated to be between 9 and 12 per cent per pupil.¹¹⁹ As more children reach school age and costs rise, the schools sector must become more productive to maintain current levels of education. It will need to educate more people for a lower per pupil cost.

¹¹⁷ Underlying spending data in 2013-14 prices using ONS GDP deflator. Spending data for 1997-98 is on an accruals basis, whereas data for 1998-99 to 2013-14 is on a cash basis.

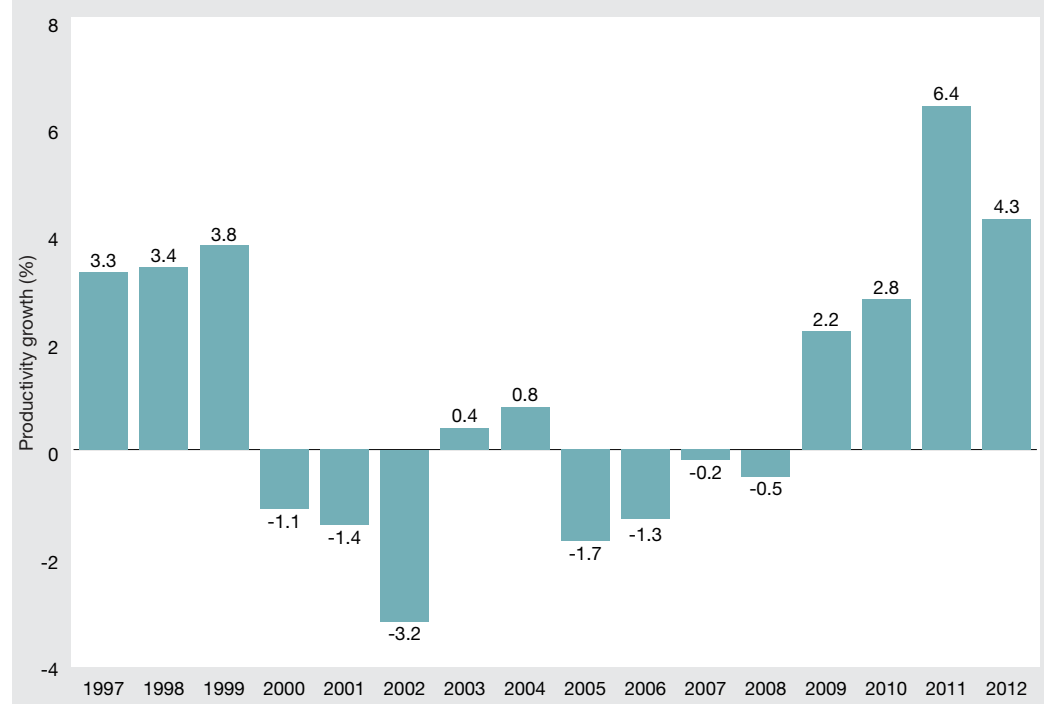
¹¹⁸ Luke Sibiet, "Schools Spending," Institute for Fiscal Studies, 2015.

¹¹⁹ Ibid.

Official productivity estimates (see Figure 10) show that productivity was in decline between 2000 and 2008 (with very small gains in 2003 and 2004), but is now steadily improving.¹²⁰ The period of decline coincides with the time when education spending was rising fastest, during the last two Labour Governments. The growth rates show the year-on-year change in productivity; that is, how much activity is needed to convert inputs into outputs, where inputs refer to the amount of labour, capital and goods and services, and outputs refer to the number of students and quality of education.

Figure 10: UK education productivity growth rates⁹

Source: Office for National Statistics (2014), *Public Service Productivity Estimates: Education, 2012*



The Office for National Statistics (ONS) estimates education output by calculating the quantity of people receiving education in each sector (primary, secondary and further education) adjusted for the quality of education received. For all sectors, the output quality is calculated using Key Stage 4 (KS4) performance at a national level.¹²² An uncapped Average Point Score (APS) is calculated by multiplying the number of GCSE and GCSE-equivalent subjects each student takes by the difficulty level (higher grades score higher points).¹²³

While APS at GCSE may well be the most suitable measure of education quality at a national level, it is contentious for two reasons. Firstly, it does not measure quality at either primary school or in further education. Secondly, it does not provide a full picture of children's outcomes at school. Children may be able to complete exams and coursework well, but might nevertheless lack the knowledge and skills in that subject area. Wider aspects of a school, such as the provision of extra curricula activities, add greatly to pupils' engagement and enjoyment in school, but will not necessarily be reflected in exam results. In addition, there is concern of a growing disconnect between traditional academic qualifications and 'non-cognitive' skills, such as the ability to learn independently, or cope in difficult situations. Nevertheless, alternative measures of

¹²⁰ Office for National Statistics, *Public Service Productivity Estimates: Education, 2012*, September 2014.

¹²¹ Output includes early years, primary, secondary and further education. Input includes capital services, goods and services and labour.

¹²² Office for National Statistics, *Public Service Productivity Estimates: Education, 2012*.

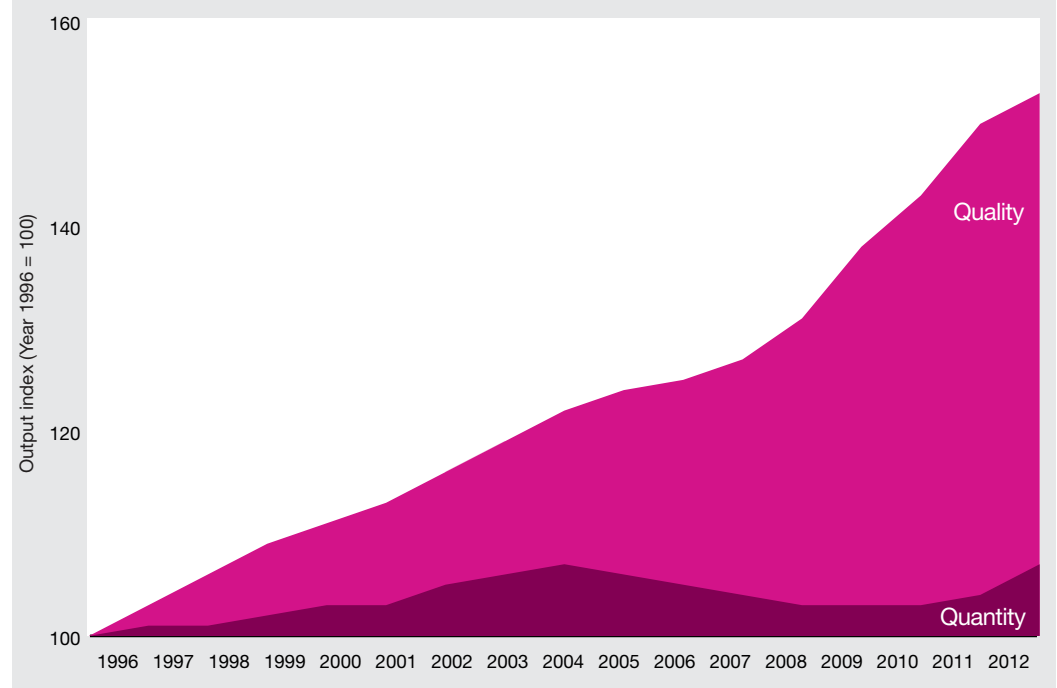
¹²³ This contrasts the new capped APS measure, which similarly scores pupils' performance, but only across their best eight subjects.

education outcomes are in their infancy, and not developed enough to use here.¹²⁴

The return to productivity growth illustrated in Figure 10 is, on the face of it, counterintuitive. Pupil numbers have been falling since 2003 and only started to rise again in 2011 (see Figure 9).¹²⁵ Taking this fact in isolation would suggest a decrease, rather than increase, in productivity, as the quantity of pupils taking exams would be lower. There is also a substantive body of evidence to suggest that GCSE headline results have been subject to grade inflation.¹²⁶ This would imply that some of the rise in GCSE results have not been due to real improvements in education. If true, the official estimates of productivity growth are overstated.

To determine how much quality adjustment affects their output estimate, the ONS measures the contribution of quality adjustment on output over time. Figure 11 shows that quality adjustments have a much greater impact on education output than quantity. This is important because it means that declining pupil numbers would have a much lesser impact on overall productivity than improvement in pupils' results.

Figure 11: Impact of quality adjustment on education output, 1996-2012
Source: Office for National Statistics (2014), *Public Service Productivity Estimates: Education, 2012*



One alternative measure for the quality of education in the UK can be found through international comparisons. The Programme for International Student Assessment (PISA) is a triennial exercise organised by the OECD and run across 65 countries.¹²⁷ It compares the performance of 15 year olds in tests that measure key competencies in reading, maths and science. Given that the ONS measures UK education productivity, mean scores for the UK are used rather than scores for England. The UK sample size was too small in the first two years that PISA was conducted (2000 and 2003), so these have been omitted (see Appendix A for the methodology).

Trends in International Mathematics and Science (TIMSS) is a quadrennial international assessment run across 52 countries at both age 10 (Year 5) and age 14 (Year 9). The tests

¹²⁴ See for example the Association of School and College Leaders' alternative league tables and Cambridge Assessment's work with Open Public Services.

¹²⁵ Department for Education, "Schools, Pupils and Their Characteristics: January 2014," 12 June 2014.

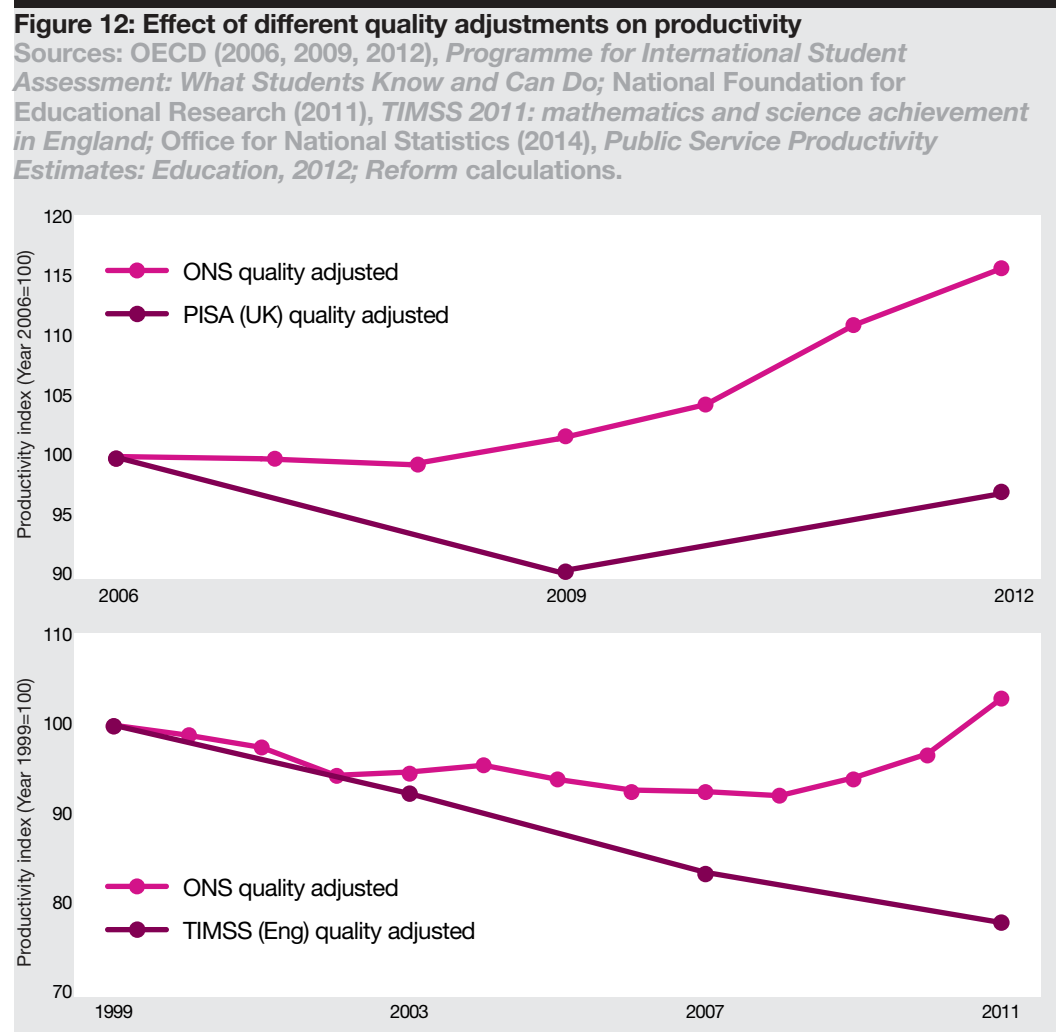
¹²⁶ See for instance Robert Coe, *Changes in Standards at GCSE and A-Level: Evidence from ALIS and YELLIS*, April 2007; Robert Coe, *Improving Education: A Triumph of Hope over Experience*, June 2013.

¹²⁷ The number of countries included in PISA has grown each year since the first assessment in 2000.

measure key competencies in maths and science across these age groups and have been running since 1999. Results are published for England, Wales, Scotland and Northern Ireland separately; this analysis uses data from England only. This is likely to produce an optimistic measure of performance for the UK as a whole, as Wales performed significantly lower than England in PISA 2012 across reading, maths and science. England, Scotland and Northern Ireland performed similarly well across all three subjects.¹²⁸

In contrast to rises in national KS4 figures, the UK's performance in PISA and England's performance in TIMSS has remained relatively stable. Appendix A shows the effect of using these different measures to quality adjust education output. While the change in scores between years is not always statistically significant, the appendix provides confidence intervals for PISA scores at 10th and 90th percentile. These show that it is extremely unlikely that the PISA scores could be as high as KS4 scores. While PISA and TIMSS do not measure the same competencies as KS4 performance, they nevertheless measure important aspects of education outcomes.

Figure 12 shows the impact of using different quality adjustments on education productivity. Using PISA or TIMSS in place of the ONS's APS measure has a considerable impact on education productivity. Rather than returning to growth, as the ONS suggests, these new estimates show that productivity has declined.



The difference between these two quality measures and the ONS measure is stark.

¹²⁸ Rebecca Wheeler, Juliet Sizmur, Bethan Burge, Robert Ager, OECD programme for international student assessment and National Foundation for Educational Research, *Achievement of 15-Year-Olds in Wales: PISA 2012 National Report*. OECD Programme for International Student Assessment: Report, April 2014.

PISA-adjusted productivity shows a reduction of three index points between 2006 and 2012, rather than a rise of 15 index points. TIMSS-adjusted productivity shows a reduction of 30 index points between 1999 and 2011, rather than a rise of three index points. These results paint a broader picture of UK education productivity and thus should be used in conjunction with the ONS estimates, rather than as an alternative to them.

While not a definitive calculation of UK education productivity, this alternative assessment suggests the schools sector is providing worse value for money than it did ten years ago. Even if real productivity sits somewhere between the *Reform* and ONS estimation, improving value for money requires urgent attention. Cost pressures are unlikely to abate; even so, achieving more for less will improve the wellbeing of school pupils' and take pressure off other important education budgets. To drive up productivity and deliver better value for money the Government should focus on three areas of reform: autonomy, accountability and funding.

4.2 More autonomy

Schools that are able to use the expertise of their staff to innovate can improve pupils' attainment overall and for the most disadvantaged. Teachers and school leaders work more closely with pupils than central government does, and are therefore best placed to know what works. In theory, though perhaps less in practice, these two beliefs have driven school reform over the last two decades, from the first City Technology Colleges in the late 1980s to the now much expanded academy programme.

The Coalition Government drove a large expansion in school autonomy and put a strong emphasis on professional autonomy. Yet schools and teachers still face barriers to innovation, which are preventing the system from giving the most to pupils. The Government should make autonomy the 'new norm' so that it is easier for schools to innovate. It must also encourage schools to build capacity so that they can harness the skills and expertise needed to drive innovation.

4.2.1 Freedom and autonomy for schools

Extending school autonomy was central to the Coalition Government's aim to raise overall achievement and narrow the achievement gap. The previous Labour Government converted some 'failing'¹²⁹ local authority schools to new City Academies, schools independent of local authority control and management, with greater freedom over the curriculum, teacher terms and conditions, teacher pay and school and term dates. Unlike under Labour, the Coalition Government brought forward new legislation to enable all schools to apply for conversion. The Coalition Government also diversified school choice by introducing four new forms of schools: free schools, university technology colleges, careers colleges and studio schools. While these are legally identical to academy schools, they are small in number.

Evidence suggests that the pre-2010 sponsored academies were successful in raising pupils' attainment compared to local authority schools, even when controlling for pupils' prior attainment.^{130,131} It should be noted however that previous to 2011-12, sponsored academies received more funding than their entitlement allowed, due to an accounting error in the Department for Education (DfE).¹³² There is mixed evidence as to whether sponsored academies have been successful in narrowing the attainment gap between pupils from disadvantaged backgrounds and everyone else. While the proportion of pupils on free school meals achieving 5+ A*-C GCSEs has risen faster in sponsored academies

¹²⁹ Ofsted rates schools across four categories, 'outstanding', 'good', 'requires improvement' and 'inadequate' ('failing').

¹³⁰ Andrew Eyles and Stephen Machin, "The Introduction of Academy Schools to England's Education," September 2014.

¹³¹ It should be noted that pupils attending pre-2010 sponsored academies have a higher prior attainment than those attending similar maintained schools. However, Eyles and Machin (2014) controlled for pupils' prior attainment in their study.

¹³² Chris Cook, "Blunder gives academies extra cash," *Financial Times*, 16 June 2011.

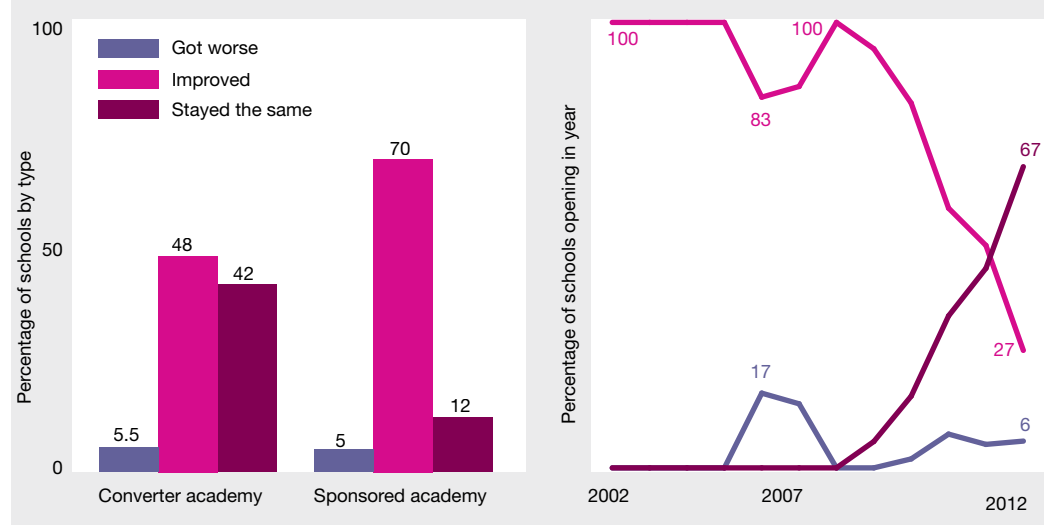
than in local authority schools,¹³³ this could be explained by changes to sponsored academy schools' intake.¹³⁴ Other research suggests that sponsored academies have had no significant effect on pupils' achievement at the bottom of the ability distribution.¹³⁵

It is too early to judge the success of the more recent converter academies, which converted to academy status from a position of strength. However, initial studies have shown there to be a limited impact of academy conversion on pupils' attainment progress.¹³⁶ As these converter academies were originally 'outstanding', the results may be explained by pre-existing differences between local authority and academy schools; local authority schools that are not 'outstanding' have further to progress. Despite the inconclusive evidence, it is plausible that the effect of the most recent academy conversions will emerge over time; many have not had the time for changes to embed.

Research by *Reform* and SSAT last year supports the view that it takes time for the benefits of academy conversion to be reflected in exam results. The research gathered survey responses from 654 of the then 3,362 academy schools (20 per cent) in a broadly representative sample. The survey found that sponsored academies are more likely to report improved pupil results than converter academies. In addition, more recent academy converters are more likely to report that results have stayed the same, and less likely to report that results have improved (see Figure 5).

Figure 13: Have results improved since becoming an academy?

Source: Finch et al. (2014), *Plan A+ 2014: The unfinished revolution*



One explanation for the slow impact on results is that so few academies are using their freedom and autonomy. Figure 6 shows that around a third of both converter and sponsored academies are using the freedoms they have over the curriculum or teachers' terms and conditions. A survey of academies by the DfE reinforces these results, with a greater proportion of academies linking pay to performance than changing their curriculum.¹³⁷ According to the DfE study, between half and two-thirds of academies that had made changes to either the curriculum or school day linked these changes to improved attainment.¹³⁸

¹³³ House of Commons Education Select Committee, *Academies and Free Schools, Fourth Report of Session 2014-15*, January 2015.

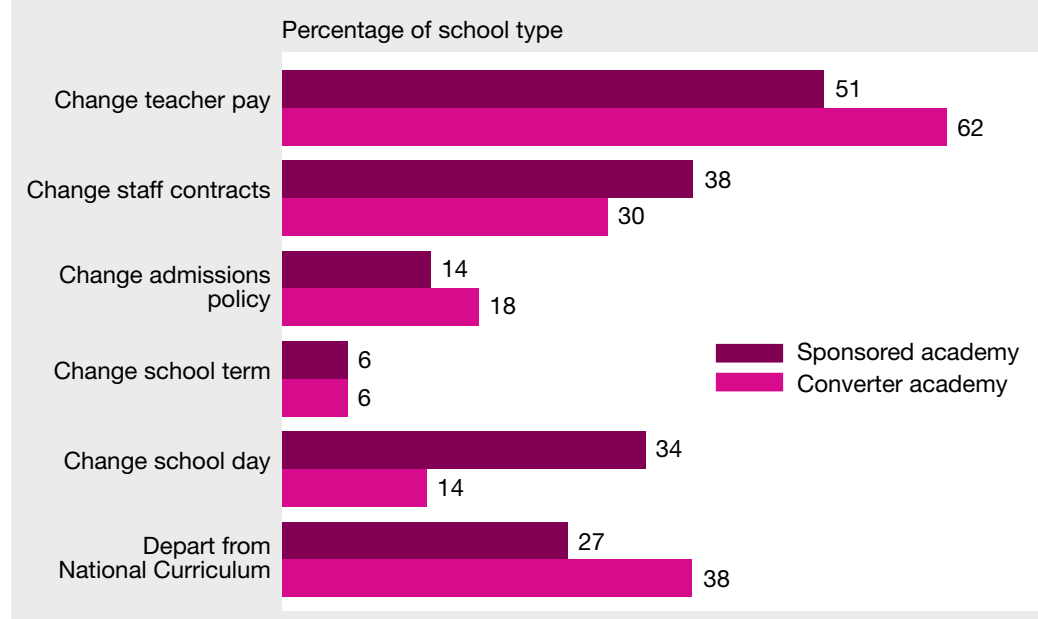
¹³⁴ Eyles and Machin, "The Introduction of Academy Schools to England's Education".

¹³⁵ Stephen Machin and Olma Silva, *School structure, school autonomy and the tail*, March 2013.

¹³⁶ Jack Worth and National Foundation for Educational Research in England and Wales, *Analysis of Academy School Performance in GCSEs 2013: Final Report*, July 2014.

¹³⁷ Rob Cirin, *Do Academies Make Use of Their Autonomy?*, July 2014.

¹³⁸ Ibid.

Figure 14: How many schools are using or plan to use their freedoms?Source: Finch et al. (2014), *Plan A+ 2014: The unfinished revolution*.

It is possible that academies use some freedoms over others because of the regulatory environment. Two of the most popular freedoms across all academies surveyed were over teachers' pay and the curriculum (see Figure 6). Prior to the survey, which was undertaken in 2013, the Government had required all maintained schools to set out how they would link performance to teachers' pay from September 2014.¹³⁹ Additionally, the Government phased in a less prescriptive National Curriculum, which may have added to the legitimacy of using this freedom. Since the survey was undertaken, the Deregulation Act has given all school governing bodies the power to set their own term dates, independent from local authorities.¹⁴⁰

In contrast to teacher pay, only 30 per cent of converter and 38 per cent of sponsored academies surveyed use their freedom to change staff terms and conditions. In 2013 the School Teachers' Review Body rejected proposals to remove the national framework around working hours and the provision to 'rarely cover' lessons for absent colleagues. This may explain why a considerably lower proportion of academies reported making changes to teachers' terms and conditions in contrast to teachers' pay. Maintaining these restrictions for local authority schools may deter academies from negotiating teachers' terms and conditions.

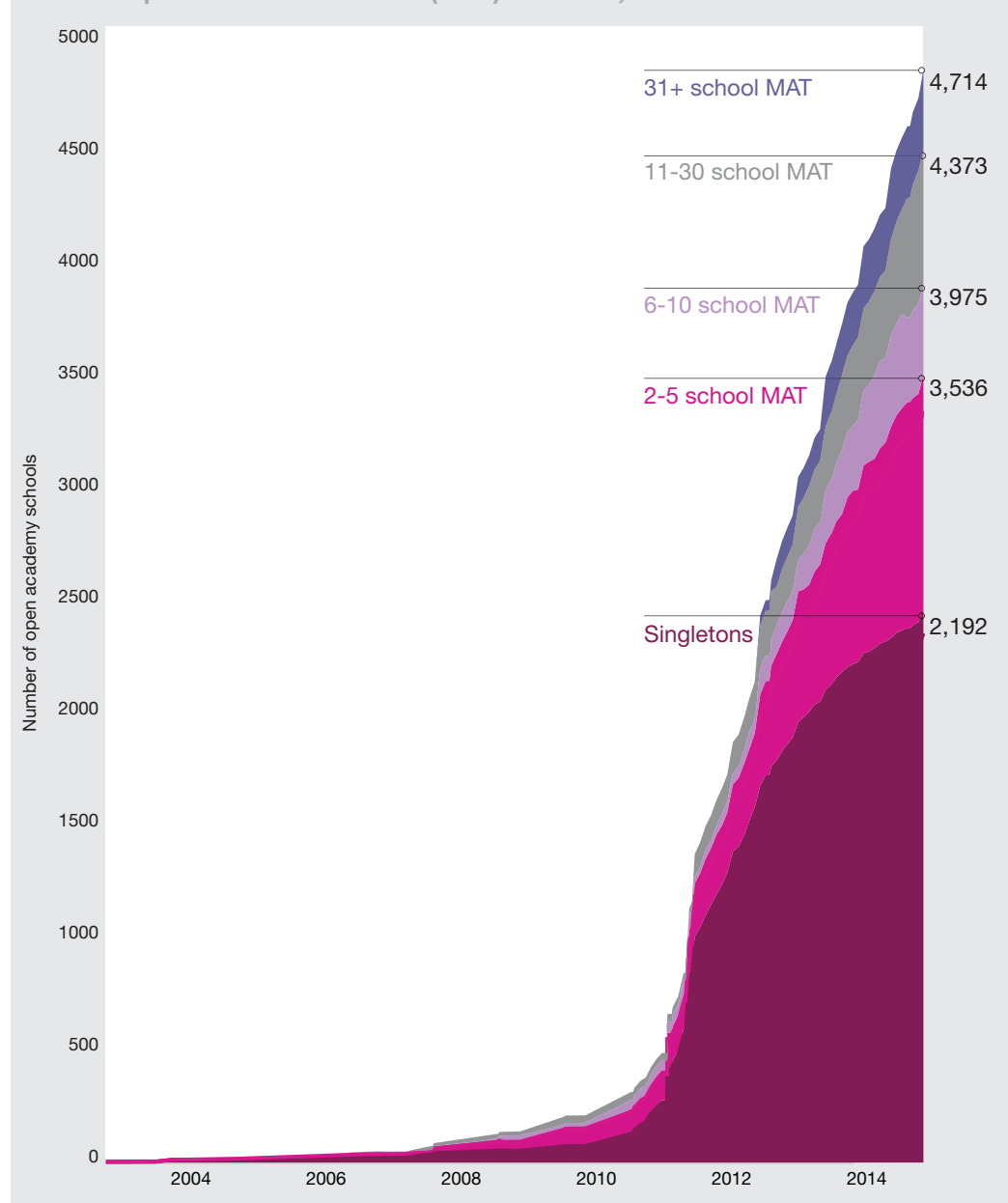
To encourage innovation in all schools, the Government should go further in deregulating the school environment. The Government should extend academy freedoms to all schools. This should include the freedom to hire unqualified teachers and make changes to teachers' terms and conditions. Local authorities could continue to manage and support local authority schools within this more autonomous framework.

4.2.2 The potential of school groups

One way to drive innovation is through economies of scale. Since 2010, the number of academies has risen vastly. Yet within this group, the majority of schools have either been standalone or in multi-academy trusts of just five schools or less. Figure 7 shows that 84 per cent of academies are either standalone schools or belong to a group of ten or fewer schools. Only 7 per cent are in a group of over 30 schools.

¹³⁹ Department for Education, "Teachers' Pay: Changes since September 2013," 16 August 2013.

¹⁴⁰ HM Government, *Deregulation Act 2015*, 2015.

Figure 15: Rise of academy schools by size of academy trustSource: Department for Education (2015): *Edubase, March 2015*.

The lack of sizeable school groups may prevent academies from making the most of their freedoms and resources. Research published by *Reform* and authored by Parthenon-EY shows that school groups can make savings of between 5 and 8 per cent in a school's total budget, allowing schools to reinvest this money to develop best practice teaching and management.¹⁴¹ In addition to their economies of scale, school groups offer a mechanism in which to standardise best teaching practice. Through means of a wider pool in which to trial new evidence-based practices, groups can offer more attractive career and development opportunities for teachers.

There have nevertheless been a very small number of high profile cases of large academy groups facing governance and financial problems. One explanation is that some chains grew too fast and did not sufficiently invest in their governance structures and operating models. These problems could be avoided were chains expected to reinvest more of their revenue to develop internal accountability mechanisms. While these examples are of real concern, they should not obscure the contribution that well-governed chains can make.

¹⁴¹ Matthew Robb and Anna Grotberg, *Education in Chains*, March 2015.

In addition to the problems noted above, there are a number of reasons why many schools and academies may not see the benefits of joining a large school group. For example, Ofsted inspects individual schools, irrespective of whether they are standalone schools or part of a high performing academy chain. Moreover, while academy groups of five schools or more receive capital for school rebuilding and refurbishment, this does not include capital for meeting the 'basic need' for new school places, where schools currently compete head to head.¹⁴² Given the importance of scale to drive innovation, these barriers could be preventing important gains and improvements in value for money. The Government should remove the barriers to schools joining school groups, with a view to encouraging more schools to innovate.

Recommendation

The Government should extend academy freedoms to all schools. This should include the freedom to hire unqualified teachers and make changes to teachers' terms and conditions. It should also remove the barriers to schools joining school groups, with a view to encouraging more schools to innovate.

4.2.3 Professional autonomy

In the first education White Paper of last Parliament, *The Importance of Teaching*, the Coalition Government rightly recognised that "[n]o education system can be better than the quality of its teachers".¹⁴³ This renewed focus on the quality of teaching was matched by an expansion of Teach First and school-led initial teacher training, through the creation of new teaching schools, which were also aimed at addressing problems with teacher recruitment and retention. As *Reform* has argued previously, teacher quality "is the single biggest influence on pupils' educational progress".¹⁴⁴ The recruitment and retention of high quality teachers are fundamental to this, as is high quality continuing professional development.

A recognition of the importance of teaching was matched by rhetoric that teachers know best.¹⁴⁵ In the same White Paper, the Coalition Government set out its view that "teachers must be free to use their professionalism and expertise to support all children to progress".¹⁴⁶ To this aim, it brought in a new, knowledge-based National Curriculum and removed the requirement that teachers assess pupils' progress through its level descriptors.

The removal of 'levels' for assessing pupils' achievement and progress should be welcomed. Levels had gained a reputation among school teachers and leaders as being both overly bureaucratic and unhelpful in assessing pupils' progress. While it is only a year since they were abolished, the removal of levels has not unleashed the levels of innovation it was intended to. Many schools are inhibited from creating their own methods for assessing how well pupils are doing. This is particularly true of primary schools, where early formative assessment is crucial for pupils' progress. Primary schools are typically much smaller than secondary schools and thus can lack the economies of scale to buy in additional expertise or invest in high quality teacher development. There are also concerns about the way in which Ofsted will judge the comparability and robustness of schools' own assessment techniques.

The Government must think carefully about how it enables innovation in assessment to grow. During the last Parliament, the Coalition Government created an Assessment Innovation Fund to support schools in developing their own methods. The eight schools that were selected published a range of materials that are now free for other schools to

¹⁴² Department for Education, *Capital Funding for Multi-Academy Trusts (MATs)*, February 2015.

¹⁴³ Department for Education, *The Importance of Teaching: the Schools White Paper 2010*, November 2010.

¹⁴⁴ Dale Bassett, Andrew Haldenby, Will Tanner and Kimberley Trehwitt, *Every teacher matters*, Reform, November 2010.

¹⁴⁵ This was one of the key findings of McKinsey's 2007 report, Michael Barber and Mona Mourshed, *How the World's Best Performing School Systems Came out on Top*, September 2007.

¹⁴⁶ Department for Education, *The Importance of Teaching*.

use. The Government also established a Commission on Assessment to identify and share best practice with schools. Yet it is not clear how the success of this latest initiative will be judged, or whether it will introduce more prescription into the system. To be successful, the Commission must maintain professional autonomy at a school level.

4.3 Better accountability

The way in which the Government holds schools to account has a significant impact on the quality of education pupils receive. It can change how much attention certain groups of pupils get given and the qualifications they take. These are both crucial in determining a pupils' chance of accessing and progressing in employment, and their potential to lead a full and happy life. A good accountability system will encourage schools to raise achievement for all their pupils, particularly for those least advantaged.

The Coalition Government made significant improvements to school accountability by reforming the way school performance is measured in league tables. New minimum standards for primary and secondary schools have encouraged schools to focus on raising the achievement of all their pupils. The removal of arbitrary league table equivalences has encouraged more pupils to take highly valued qualifications. New measures of progress have enabled the Government to compare schools on their ability to add educational value to each pupil. Yet despite these critical improvements, a number of concerns still remain around the effectiveness of oversight and intervention for both academies and local authority schools.¹⁴⁷

4.3.1 Raising achievement for all

The Coalition Government's reforms to the school accountability system have made huge progress in removing the perverse incentives for schools to focus their resources on pupils at key grade boundaries. A new measure of pupils' progress in eight subjects (Progress 8) will be used to set minimum standards for secondary schools from September 2016.^{148,149} Poor performance on this measure will be used to highlight struggling schools, replacing the percentage of pupils achieving 5+ A*-C GCSE grades. This should encourage schools to raise achievement for all their pupils, rather than focus on pupils at the C/D GCSE grade boundary.

The Coalition Government also made changes to the minimum standards for primary schools. While it maintained both attainment and progress measures, the percentage of pupils it required to meet these measures rose from 60 to 65 per cent in 2013-14 and will be 85 per cent from 2015-16.¹⁵⁰ It has also raised the level at which pupils are expected to have reached by the end of primary school. From 2015-16, this standard will be equivalent to a current 'level 4b'.¹⁵¹ These reforms were coupled with the introduction of an optional baseline assessment for pupils in reception and phonics screening at age six.¹⁵²

4.3.2 Widening access to highly valued qualifications

Performance measures not only impact on how teachers spend their time, but the type of subjects that pupils study. Other important reforms to school accountability have removed perverse incentives to encourage pupils to study for qualifications which do not help them progress into further education or employment.¹⁵³ The former Qualifications and Curriculum Development Agency (QCDA), and previous to that the Qualifications and

¹⁴⁷ See Amyas Morse, *Investigation into the Education Funding Agency's Oversight of Related Party Transactions at Durand Academy: Report by the Comptroller and Auditor General*, November 2014; House of Commons Education Select Committee, *Academies and Free Schools*.

¹⁴⁸ Simon Burgess and David Thomson, *Key Stage 4 Accountability: Progress Measure and Intervention Trigger*, December 2013; Department for Education, *Factsheet: Progress 8 measure*, February 2014.

¹⁴⁹ Some secondary schools opted into using this measure from September 2015. Floor standards for schools will continue to be based on both progress and raw attainment in reading and maths. See Department for Education, *Reforming assessment and accountability for primary schools*, March 2014.

¹⁵⁰ Department for Education, *Reforming Assessment and Accountability for Primary Schools*.

¹⁵¹ *Ibid.*

¹⁵² *Ibid.*

¹⁵³ Alison Wolf, *Review of Vocational Education: The Wolf Report*, March 2011.

Curriculum Authority, was designed to give all vocational qualifications a common scale 'equivalence', irrespective of their difficulty 'level'. This led to wide-spread 'gaming' in schools, with many pupils encouraged to study for qualifications that made them worse off in the labour market than had they studied for alternative qualifications.¹⁵⁴

The abolition of the QCDA under the Coalition Government was coupled with a requirement that pupils study English and maths beyond the age of 16, if they had not already achieved a 'good' pass at GCSE (grade C or above). This was supplemented with a new performance measure in league tables for just English and maths, and the introduction of the EBacc performance measure, including performance in English, maths, science, humanities and modern languages. Pupils on free school meals, and often among the most disadvantaged in society, are more likely to attain below grade C in GCSE English and maths than those from more advantaged backgrounds. English and maths have high value in the labour market.¹⁵⁵ Thus the focus on improving access to these qualifications will improve the chances of those most disadvantaged being in employment, thereby improving wellbeing.

4.3.3 Narrowing the achievement gap

Narrowing the achievement gap between the least advantaged in society and everyone else was a core focus for the Coalition Government. It introduced a Pupil Premium through which to allocate schools additional funds for each pupil on free school meals. Schools are required to publish spending on the Pupil Premium on their websites. In this financial year, the Pupil Premium is worth £1,300 per primary school pupil and £935 per secondary school pupil. The rationale was to encourage schools to admit more pupils from disadvantaged backgrounds,¹⁵⁶ and to provide those schools with more funds on the basis that providing education to these pupils is more expensive. It should be noted that weighting funding according to deprivation was also the basis for changes to school funding through local authorities, which is discussed more in the next section.

While the gap between pupils on free school meals and everyone else has remained stubbornly wide at between 25 and 26 per cent on the headline 5+ GCSEs A*-C measure,¹⁵⁷ there are signs that it is narrowing on the new progress measure.¹⁵⁸ According to the new education research centre, Education Datalab, on this measure the gap is on track to close by 2032.¹⁵⁹

4.4 Fairer funding

4.4.1 Schools funding

In addition to rising public spending on education, spending per school pupil aged 5-16 years has also been rising in real terms at least a decade.^{160,161} It grew at an historic rate between 1998 and 2009, increasing by an average of nearly 6 per cent a year.¹⁶² Since 2010, growth has been much slower, averaging 0.7 per cent a year.¹⁶³ The schools budget now stands at £39 billion and remains the third largest ringfence in public spending, after the NHS and defence.

The reason most often cited for increasing per pupil funding is to improve pupils' outcomes. Yet two separate studies for the DfE have questioned a relationship between

¹⁵⁴ Lorraine Dearden, Leslie McGranahan and Barbara Sianesi, *An in-Depth Analysis of the Returns to National Vocational Qualifications Obtained at Level 2*, December 2004.

¹⁵⁵ See Appendix 3 in Wolf, *Review of Vocational Education* for an overview of the literature.

¹⁵⁶ While all state-funded schools are required to follow the Schools Admissions Code, there is a considerable body of evidence to show how schools can "cherry pick" high attaining pupils.

¹⁵⁷ Department for Education, *Revised GCSE and Equivalents Results in England, 2013 to 2014*.

¹⁵⁸ Education Datalab, *Seven Things You Might Not Know about Our Schools*, March 2015.

¹⁵⁹ Ibid.

¹⁶⁰ Haroon Chowdry and Luke Sibbets, *Trends in education and spending in schools*, Institute for Fiscal Studies, October 2011, Figure 2.

¹⁶¹ This excludes funding for pupils aged 16-19, which has fallen over the last Parliament.

¹⁶² Ibid.

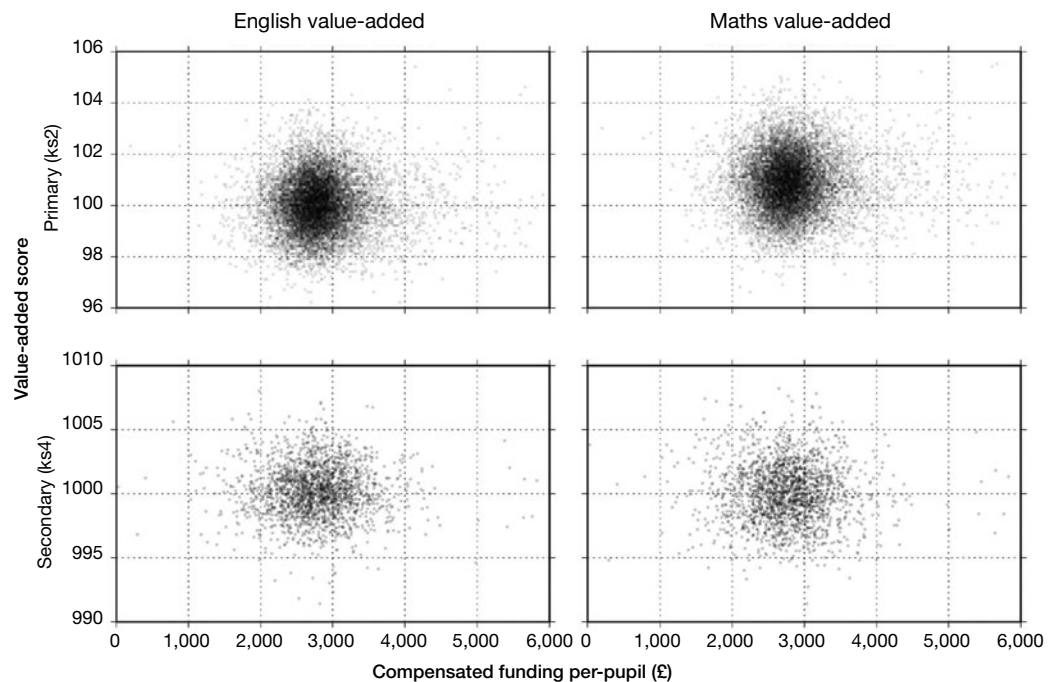
¹⁶³ Ibid.

school spending and the quality of education.¹⁶⁴ The Coalition Government chose to ignore this in maintaining a ringfence around the schools budget for 5-16 year olds.

Previous *Reform* research has also shown there to be no relationship between spending and pupil outcomes at a school level. Figure 8 demonstrates the absence of a correlation between per pupil funding and results in English and maths at the end of primary and secondary school. The contextual value added score measures whether pupils within the school are making more or less than average progress when compared with pupils from similar backgrounds.¹⁶⁵ The compensated funding level is calculated on the basis of a hypothetical national funding formula, accounting for factors currently used to fund schools in England, such as deprivation and schools' fixed costs. The dispersion of dots shows the wide variation of funding and results, and the bunching in the centre shows that there is no relationship between the two.

Figure 16: Correlation between per pupil funding and results

Source: Thorpe *et al.* (2013), *Must do better: spending on schools*; *Reform* calculations based on Department for Education (2011), *Income and expenditure in schools in England: Local Authority maintained schools, 2010-11*.



This analysis suggests that greater funding alone will not improve pupils' results. Schools vary substantially in efficiency; some achieve exceptional results with relatively low per pupil funding. This varying efficiency may well explain why the education sector as a whole is struggling to improve value for money. On a fair comparison of per pupil funding, some schools spend twice as much as others to achieve the same results for their pupils. The Government must therefore improve schools' relative efficiency in order to improve education spending within existing and planned budgets.

The current accountability framework for schools is not geared up to encourage schools to provide value for money within their existing budgets. While the Education Funding Agency conducts annual financial audits for academy schools, it is not expected to assess the ability of the academy to translate these funds into outcomes for pupils.¹⁶⁶ In addition, the Ofsted inspection framework does not make a 'judgement' on school

¹⁶⁴ See Deloitte, *Quality Counts: What Can Analysis of the National Pupil Database Tell Us about Educational Outcomes?*, November 2012; Rebecca Allen, Imran Rasul and Leigh McKenna, *Understanding School Financial Decisions*, 2012.

¹⁶⁵ The contextual value added measure did not include pupils' prior attainment.

¹⁶⁶ National Audit Office, *Performance and Capability of the Education Funding Agency*, January 2014.

efficiency.¹⁶⁷ Nevertheless, within the context of making a judgement on the quality of leadership and management, an inspector is expected to “...evaluate how efficiently and effectively the school is led and managed.”¹⁶⁸ Although there are questions around Ofsted’s current ability to undertake the task, this is a missed opportunity to realign schools’ priorities to provide value for money.

The above analysis is muddled by an arbitrary and unfair school funding system. Soon after the Coalition Government came to power, it consulted on the introduction of a fair funding formula for schools (teaching 5 to 16 year olds), recognising that “the school funding system creates large variations...that bear little resemblance to the needs of schools and their pupils today.”^{169,170} It took small steps towards this aim by reducing the number of factors local authorities use when allocating funding to schools and streamlining central funding through three separate blocks.¹⁷¹

However, there are still vast funding disparities across schools in different local authorities, when accounting for similar pupil intakes. Previous research by *Reform* shows that the amount of per pupil funding schools receive can range from between £2,000 and £8,000.¹⁷² While additional funding through the Pupil Premium has also reallocated more funding to schools in the most deprived areas, this has not achieved a consistent or fair funding system on a pupil level.¹⁷³

The lack of a consistent funding formula for schools prevents the Government from comparing the relative efficiency of schools. While there has been much recent rhetoric about ‘coasting’ schools, some schools may flatline in the league tables with a relatively low budget, and others with a relatively high budget. A consistent funding formula across schools would make it easier to compare value for money across schools.

Recommendation

The Government should introduce a national funding formula that is fair and consistent across schools with similar pupil intakes weighted for pupils’ deprivation and local labour market conditions.

4.4.2 Funding across government

Maintaining the ringfence on the schools budget has meant that other areas of public spending, and indeed other areas of spending within the education budget as a whole, have had to bear significant cuts in comparison. For example, school and college education for those aged 16 to 19 years have not been protected by the ringfence.

Table 1 shows the distribution of spending across the education budget. It shows a significant increase in spending on Early Years (39 per cent) and schools (3 per cent) in comparison to a large reduction in spending on 16-19 year olds (14 per cent decrease).¹⁷⁴ Significant reductions have also been made to the adult skills budget, which sits within the Department for Business, Innovation and Skills (BIS). According to the Government’s own figures, this budget decreased by 11 per cent in real terms in 2014-15 and is set to reduce by a further 24 per cent this financial year.¹⁷⁵

¹⁶⁷ The previous inspection regime (2005-2012) had a single judgement for efficiency in a school. Inspectors were required to give a level rating specifically for value for money, which could include consideration of “...how efficiently the provider uses its staff, financial planning, and controls and mechanisms to ensure accountability and financial stability.”

¹⁶⁸ Ofsted, *School Inspection Handbook*, January 2015.

¹⁶⁹ Department for Education, *Consultation on School Funding Reform: Proposals for a Fairer System*, 2011.

¹⁷⁰ Department for Education, “Fair Funding for All Schools,” 13 April 2012.

¹⁷¹ Department for Education, *Calculating Schools Block Units of Funding 2015 to 2016*, July 2014.

¹⁷² Thorpe, Trewitt and Zuccollo, *Must Do Better: Spending on Schools*.

¹⁷³ Sibieta, “Schools Spending.”

¹⁷⁴ Most of this increase is attributable to the expansion of early years education entitlement to two year olds (Sibieta, “Schools Spending”).

¹⁷⁵ Skills Funding Agency, “Allocations for the Funding Year 2015 to 2016,” 26 February 2015.

Table 4: Department for Education DEL budget, 2010-11 and 2014-15Source: Luke Sibieta (2015), "Schools spending", *IFS Briefing Note*.

	2010-11	2014-15	% total change	% annual average
	(£bn, 2015-16 prices)		(real terms)	
DfE capital DEL	7.8	5.1	-34.3%	-10.0%
DfE resource DEL	54.8	54.2	-1.2%	-0.3%
Of which:				
Early years budget	2.1	2.9	39.1%	8.6%
Schools budget (ages 5-16)	37.5	38.6	3.0%	0.7%
16-19 education budget	8.8	7.6	-13.6%	-3.6%
DfE total DEL	62.6	59.3	-5.3%	1.4%

Given the importance of further education in improving a person's job prospects, continuing to reduce the adult skills and 16-19 education budget is likely to reduce wellbeing.¹⁷⁶ School and college education deliver important qualifications that are vital for a young person's employment opportunities, and the adult skills budget funds education and training for adults without formal qualifications or the unemployed. These groups of people are often furthest away from the labour market and thus, among the most disadvantaged in society.

While there is room to achieve better value for money within the schools budget, opportunities to shift spending to towards those with low, or no, qualifications must be prioritised. The Government should consider the broader impact of education spending decisions on improving employment opportunities for the most disadvantaged.

BIS uses employment data in order to estimate the labour market returns to qualifications gained in further education.¹⁷⁷ Over the last Parliament, DfE developed destination data for school leavers.¹⁷⁸ This shows the percentage of pupils leaving for certain types of tertiary education or employment. However, these two datasets are not integrated, and are based on aggregate rather than person-level data. This prevents an evaluation of the relative value of different forms of education in improving employment. In particular, current school destination data does not enable a comparison of the employment prospects for pupils achieving a certain level or grade. Students do not therefore have a full enough picture of which qualifications and forms of education will support them into employment or further education.

Recommendation

The Government should consider the broader impact of education spending decisions on improving employment opportunities for the most disadvantaged. It should integrate school destination data with employment data, including earnings and out-of-work benefits.

¹⁷⁶ See for example Department for Business, Innovation and Skills, *The Relationship between Adult Learning and Wellbeing: Evidence from the 1958 National Child Development Study*, November 2012; Department for Business, Innovation & Skills, *The Impact of Further Education Learning*, January 2013.

¹⁷⁷ Department for Business, Innovation and Skills, *Estimation of the Labour Market Returns to Qualifications Gained in English Further Education*, December 2014.

¹⁷⁸ Department for Education, *Destinations of Key Stage 4 and Key Stage 5 Students, 2012/13*, January 2014.

4.5 Conclusion

The greatest challenge for the Government's education policy is to improve value for money in schools. This requires a relentless focus on improving the quality of teaching, and the right structures and funding systems to ensure these improvements are cost-effective and sustainable. While the Coalition Government made important improvements to school and professional autonomy and accountability, more is needed to encourage schools to use their autonomy to innovate. The introduction of a consistent and fair funding formula would reallocate resource to the most needy and allow a better comparison of schools' relative value for money.

5

Working age welfare

Charlotte Pickles

Hannah Titley

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The welfare state plays a fundamental role in the wellbeing of the nation. It provides a safety net for individuals who fall out of work, unconditional support for those who cannot work and financial aid for those on low incomes and with significant additional costs due to disability. In doing so, it seeks to mitigate against poverty and enable all to reach a basic standard of living. However, while the welfare state has the potential to improve wellbeing, it can also limit and even damage it. A bloated welfare state in which expenditure is poorly targeted or claimants are perceived to be passively receiving 'something for nothing' can undermine its legitimacy. Governments must balance these, sometimes competing, objectives, accepting that trade-offs are inherent in the design of any social security system.

The Coalition Government inherited a welfare state suffering from a crisis in legitimacy and where the complexity of the system meant too many claimants thought they were better off on benefits than in work. Reforms which sought to make work pay, increase conditionality and reduce the total amount a household could receive in benefits have gone some way in tackling this, but more should be done.

The best way of reducing working age welfare expenditure is by reducing the demand for it. This requires a system that helps people stay in, move into and progress in work. There is also a wealth of evidence that shows that employment status has a substantial impact on individual wellbeing: for the vast majority of people, being in work is good for them and being out of work is bad for them.¹⁷⁹ This is because work has important physical and mental health, psycho-social and financial benefits. Moving more people into work also increases the labour supply, which contributes to economic growth. The welfare state must therefore be just as much about supporting and incentivising people, where appropriate, to move into work as redistribution. It must avoid creating a 'dependency trap' in which inactivity is (inadvertently) encouraged and self-efficacy undermined. To achieve this the Government should use both financial and non-financial levers to drive behavioural change.

For large numbers of claimants, moving from welfare to work will require considerable personalised support. This is particularly important for claimants with multiple and complex barriers to entering the labour market. An approach which, as far as possible, designs interventions around the needs of the claimant, giving them (at least partial) choice and control, is more likely to succeed in moving them into sustained employment.

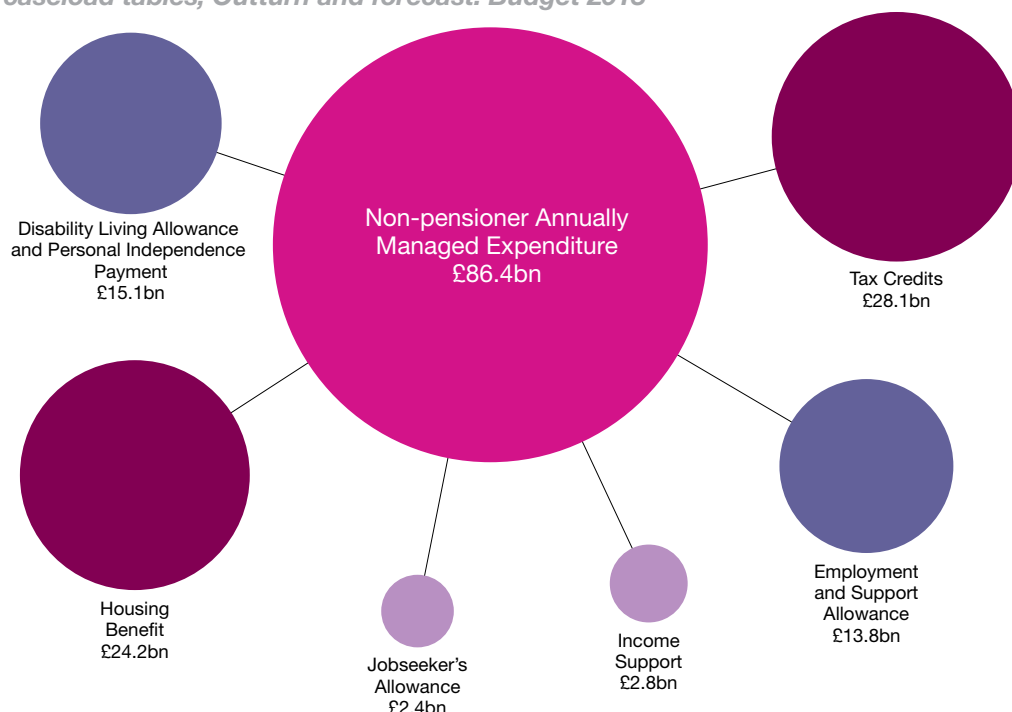
The new Government has already committed to continuing the Coalition's objective of getting people into work. Within this, it must have a particular focus on tackling the high number of people on sickness and disability benefits. This will require reform of not just the way employment support services are delivered but of the design of Employment and Support Allowance (ESA) itself. It must also seek to address the other drivers of high benefit expenditure: a shortage of social housing and the persistence of low wage, low skill jobs. Short-term cuts can only hit the standard of living of the poorest in society – a more strategic approach is needed, driven not by an arbitrary savings figure but by a core set of principles for the welfare state.

In summary, the new Government must build a welfare system in which benefit payments are targeted at those with the greatest need and one in which robust activation policies and effective employment support programmes move people into sustainable employment as quickly as possible.

¹⁷⁹ For a summary of the evidence see Gordon Waddell and A Kim Burton, *Is Work Good for Your Health and Well-Being?*, 2006.

Figure 17: DWP and Tax Credit expenditure (excluding pensioner only benefits), 2015-16 forecasts, real term prices 2014-15

Source: Department for Work and Pensions (2015), *Benefit expenditure and caseload tables, Outturn and forecast: Budget 2015*



5.1 The legacy of the Coalition

Presenting the Emergency Budget in June 2010, the Chancellor stated that the Coalition Government would “put the whole welfare system on a more sustainable and affordable footing” and that the higher the (non-pensioner) welfare savings, the lower the cuts to other departmental budgets.¹⁸⁰ He reiterated this in October 2010 when presenting the Spending Review settlement: “the more we could save on welfare costs - the more we could continue other, more productive areas of government spending.”¹⁸¹ This focus on cutting the benefit bill was combined with a narrative of building a fairer system and moving more people into work. Iain Duncan Smith in his first speech as Work and Pensions Secretary placed social justice at the heart of his reform agenda, stating: “We must be here to help people improve their lives - not just park them on long-term benefits”.¹⁸²

5.1.1 Cutting the benefit bill

The Coalition Government used a variety of mechanisms to reduce the working age benefit bill, including:¹⁸³

- **Stopping benefits** – for example the Health in Pregnancy Grant and In Work Credit;
- **Restricting eligibility for benefits** – for example means-testing Child Benefit and lowering the income threshold for receiving Child Tax Credit;
- **Replacing benefits** – Disability Living Allowance was replaced by Personal Independent Payment for working age claimants, with a stricter health assessment;
- **Time-limiting benefits** – introduced for contributory Employment and Support Allowance for those in the Work Related Activity Group;

¹⁸⁰ George Osborne, “Budget 2010: Full Text of George Osborne’s Statement,” 8 June 2010.

¹⁸¹ BBC News, “Spending Review: Chancellor’s Speech in Full,” 20 October 2010.

¹⁸² Iain Duncan Smith, “Reforms Will Tackle Poverty and Get Britain Working Again,” 27 May 2010.

¹⁸³ Some benefits span working age and pensioner claimants, for example Housing Benefit (in November 2014 3.6 million claimants were aged under 65, 1.3 million were over 65 (Department for Work and Pensions, *Housing Benefit Caseload Statistics Data to February 2015*, May 2013)); child related benefits are included as they are claimed by, predominantly, working age adults.

- *Changing the uprating of benefits*, for many benefits RPI was replaced by CPI as the inflation measure by which benefits were increased. Uprating of certain benefits was capped at one per cent;
- *Freezing benefits*, introduced for Child Benefit and Universal Credit work allowances; and
- *Capping benefits*, implemented for Local Housing Allowance and the total amount (with exceptions) of benefit payments a household could receive.

The IFS calculates that the Coalition Government's full package of welfare reforms reduced benefit expenditure by around £16.7 billion a year.¹⁸⁴ While this is a sizeable difference (equivalent to just over the total annual expenditure on JSA and ESA), in reality this has only stemmed the rise in spending. As a proportion of GDP, the OBR forecasts that total social security spending (ie. for all ages) will have reduced from 13.6 per cent in 2012-13 to 12.1 per cent in 2014-15, the last full year of the Coalition Government.¹⁸⁵ This is still significantly higher than in 2007-08, pre-recession, when the equivalent figure was 11.2 per cent.¹⁸⁶

5.1.1.1 Uprating of benefits

The biggest reduction in non-pension spending over the last Parliament came from the changes to uprating, accounting for £7.6 billion of the £16.7 billion savings.¹⁸⁷ The switch from RPI to CPI indexation had a sound economic rationale (although recent analysis suggests that RPIJ may be a better measure of the inflation experienced by households¹⁸⁸). Arbitrary caps on uprating and freezes, however, are short-term cuts. For those already on low incomes, uprating their benefits by less than prices simply erodes their standard of living. In addition, applying a below inflation increase to Working Tax Credits and freezing the Universal Credit (UC) work allowances undermined the Government's own push to make work pay.

Policy makers are nearly always faced with trade-offs, and the uprating of benefits is no exception. The methodology adopted for uprating must balance multiple objectives, including poverty alleviation, legitimacy and fairness, and incentivising work. Within this, it is important to recognise that those on very low incomes are less able to smooth their consumption and therefore periods of high inflation have a disproportionate impact on them. It may therefore be appropriate that in periods during which prices increase at a faster rate than earnings, benefits become relatively more generous – including Working Tax Credits.

However, to avoid a ratcheting effect which undermines both taxpayers faith in the welfare state and the objective of making work pay, government could offset this additional generosity by linking benefits to a specific proportion of earnings; a relative earnings link. This relative link is used for pensions in Australia, where the Government sets a floor for the state pension of 25 per cent of male total average weekly earnings. If, once earnings growth outstrips inflation again, the level of benefits has increased beyond the floor, government can in effect 'claw back' the additional generosity by not uprating benefits. Over the medium term this would ensure that the value of benefits keeps track with wages. Governments are, however, seeking to achieve different objectives via different benefits – for example, there is no need for a work incentive in pensions – and therefore careful consideration should be given to the impact of different methods of uprating on those incentives.

¹⁸⁴ Andrew Hood and David Phillips, *Benefit Spending and Reforms: The Coalition Government's Record*, January 2015.

¹⁸⁵ Office for Budget Responsibility, *Economic and Fiscal Outlook: March 2015*, March 2015.

¹⁸⁶ Office for Budget Responsibility, *Welfare Trends Report*, October 2014.

¹⁸⁷ Hood and Phillips, *Benefit Spending and Reform*.

¹⁸⁸ John Astin and Jill Leyland, *Towards a Household Inflation Index: Compiling a Consumer Price Index with Public Credibility*, 14 May 2015.

Recommendation

The Government should not freeze benefits. Instead, it should consider whether a more flexible approach which allows for more generous uprating at times when inflation outstrips earnings growth, but enables that additional generosity to be clawed back when this is reversed is more appropriate. This must take account of the different objectives inherent within different benefits.

5.1.2 Work as the best route out of poverty

In a speech to *Reform* in February 2015, Work and Pensions Secretary Iain Duncan Smith described the Coalition Government's welfare reforms as "restoring fiscal stability by restoring lives". This meant building a system that incentivised and supported people into work, including making work pay. Two flagship reforms, Universal Credit and the Work Programme, were at the heart of this.

5.1.2.1 Universal Credit

A core aim of UC, which combines six of the main working age benefits, is to effect behaviour change through both financial and non-financial incentives. It seeks to (a) remove the risk of income loss from moving into and out of work by using real time information to adjust the level of UC payment in line with earnings, and (b) make work pay, even for those working few hours, by introducing a single withdrawal rate.

Previous work by *Reform* has highlighted the trade-offs involved in setting taper rates. *The Money-go-round: cutting the cost of welfare* noted that in designing a welfare system government must take decisions about the relative importance of poverty alleviation, financial incentives and fiscal cost, and the trade-offs within each of these.¹⁸⁹

To further support claimants to make the transition into work, the Coalition Government invested in local support services. "Universal Support", delivered by local authorities partnering with Jobcentre Plus, provides help for particularly vulnerable claimants, including help in budgeting, accessing housing and drug and alcohol treatment, and digital inclusion. This in-kind support is vital and should be a continuing priority for the new Government.

UC will also help to tackle poverty by increasing the uptake of benefits, and applying for just one benefit is more user-friendly. UC is therefore a policy with considerable advantages for claimants and wider society.¹⁹⁰

Roll out of the new system has suffered from delays, largely due to the ICT challenges involved in delivering reform on such a big scale and the difficulty of transitioning from legacy systems. However the 'reset' timetable looks more promising, with the NAO stating that the changes have sought to 'de-risk' delivery.¹⁹¹ Early indicators point to a successful policy: UC claimants are more likely to move into work, stay in work for longer and undertake more intensive job search.¹⁹²

¹⁸⁹ Thomas Cawston, Patrick Nolan and Andrew Haldenby, *The Money-Go-Round: Cutting the Cost of Welfare*, October 2010.

¹⁹⁰ Department for Work and Pensions, *Universal Credit: Welfare the Works*, November 2010.

¹⁹¹ Ibid.

¹⁹² Department for Work and Pensions, *Estimating the Early Labour Market Impacts of Universal Credit*, February 2015; Department for Work and Pensions, *Universal Credit Pathfinder Evaluation*, October 2014.

5.1.2.2 The Work Programme

The Work Programme replaced several employment support programmes to create a single national outsourced programme delivered via prime contractors in 18 regional contract areas. Two or three providers were chosen for each area in an attempt to use competition to drive performance. The Coalition Government adopted a black box approach, enabling providers to use their expertise to design the service offer for participants, and a payment model that shifted risk of failure from the taxpayer to those providers. If providers failed to achieve job outcomes, they would not be paid.¹⁹³ Differential pricing was used to incentivise greater investment in participants further from the labour market and 'sustainment payments' to encourage providers to keep people in work.

Job outcome rates for all but the very hardest to help are above minimum expected levels, though sustainment levels (ie. for keeping someone in work) are lower than expected. However, as the NAO highlights, this is in part due to the DWP setting expectations too high.¹⁹⁴ In its most recent analysis of the Work Programme the NAO found that outcomes are in line with previous programmes (with the DWP expecting improvements for later cohorts) but have been achieved at a lower cost. Over the lifetime of the programme, £41 million will have been saved compared to previous programme costs.¹⁹⁵

The key focus for this Parliament must be on ensuring the model works for those furthest from the labour market, particularly addressing the low job outcome rates for ESA claimants. Despite the differential pricing, investment in the hardest to help groups has been significantly lower than expected.¹⁹⁶ It is likely that greater funding is needed for these groups, however this should be explored as one of several levers to improve outcomes and the payment model should remain predominantly payment by results.

One significant barrier to better results is the lack of integration with other services, in particular skills and health. Both of these areas play a central role in enabling a participants' return to work, but to date there has been minimal alignment of objectives or integration of budgets across these services. This is despite consistent calls for this to happen, and in the case of health, considerable evidence of the positive impact of work on an individual's health.

A more integrated approach is essential to helping those with more complex needs, and particularly those with health problems and disabilities. Given the lack of evidence on what works for moving this latter group into work, the Government should focus on encouraging innovation and robustly evaluating different models.¹⁹⁷ This will require the allocation of appropriate levels of funding, and the three relevant departments (Work and Pensions, Health, and Business, Innovation and Skills) should all contribute. Each of these departments will accrue benefits from successfully closing the employment gap between disabled and non-disabled people.

Recommendation

The Government should build on the current Work Programme model, which has delivered improved value for money compared to previous programmes, but should evaluate which components have worked well and which elements require amendment. Particular attention should be paid to the differential pricing structure, which did not achieve the Coalition Government's objective of ensuring greater investment in those furthest from the labour market.

¹⁹³ An attachment fee was used in the first two years to help with cash flow, from June 2014 onwards payment was 100 per cent by results.

¹⁹⁴ Department for Work and Pensions, *The Work Programme*, December 2012.

¹⁹⁵ Ibid.

¹⁹⁶ Timothy Riley, Paul Bivand and Tony Wilson, *Making the Work Programme Work for ESA Claimants*, April 2014.

¹⁹⁷ Department for Work and Pensions, *What Works for Whom in Helping Disabled People into Work?*, October 2013.

5.1.3 A fairer social security system

The Coalition Government made fairness a key plank of its reforms: (a) fairness between those in work and those out of work, and (b) fairness between those on low incomes and those on higher incomes.

5.1.3.1 Capping benefits

On the first point, it sought to ensure that out of work benefit claimants could not afford a lifestyle beyond that of working people on low incomes. Measures included reducing the level of Local Housing Allowance (LHA) payable to claimants and capping the benefit payments an out of work household could receive to the income of an average working household (with some exceptions, including for disability).¹⁹⁸ The benefit cap is lifted when a household member moves into work, thereby incentivising positive behaviours that increase wellbeing. As of November 2014, 40 per cent of those no longer subject to the cap had moved into work (opened a Working Tax Credit claim), equating to 12,500 households who, previously workless, now have someone in employment. This is the single biggest reason for moving off the cap, the majority of the remaining 60 per cent are no longer subject to the cap due to changes in Housing Benefit or household structure.¹⁹⁹

5.1.3.2 Middle-class welfare

On the second point, the Coalition Government sought to tackle ‘middle-class welfare’, as recommended by *Reform*, notably in *The End of Entitlement*.²⁰⁰ To this end, it reduced the income threshold for Child Tax Credits and introduced a means test for Child Benefit. These two measures are projected to save £2.7 billion annually.²⁰¹ The new Government should, however, go further.

These types of reforms prioritise better targeting of expenditure over the smoothing of marginal deduction rates. This is an acceptable trade-off to ensure that social security expenditure is spent on those in need. To this end, Child Benefit should be targeted at those on the lowest incomes by moving it into UC. The IFS calculates that abolishing Child Benefit and increasing the level of UC to compensate low-income families could save £4.8 billion.²⁰² In addition, *Reform* has previously recommended that consideration be given to means-testing or taxing Disability Living Allowance (DLA).²⁰³ At a minimum, the Government should tax DLA and its replacement Personal Independence Payment (PIP). This would save £0.9 billion.²⁰⁴

Recommendation

The Government should abolish Child Benefit and compensate low income families through Universal Credit. Disability Living Allowance and Personal Independence Payments should either be taxed or means tested.

5.2 The next phase of welfare reform

Further cuts to non-pensioner welfare are not possible on the scale of those achieved by the Coalition Government. Absent a dramatic reduction in demand for benefits relating to disability, sickness, unemployment or low income, reducing working age welfare spending in the short term simply means reducing the incomes of those in most need. Benefit levels are already low and average awards for out of work benefits have been declining in real

¹⁹⁸ This included using the 30th percentile of local market rents in place of the median, introducing a national cap for different size properties and capping LHA at four instead of five bedrooms.

¹⁹⁹ Department for Work and Pensions, ‘Benefit Cap,’ <https://www.gov.uk/benefit-cap>, accessed on 9 June 2015.

²⁰⁰ Thomas Cawston, Patrick Nolan and Andrew Haldenby, *The End of Entitlement*, October 2009.

²⁰¹ HM Treasury, *Spending Review 2010*, October 2010; HM Treasury, *Budget 2010 Policy Costings*, June 2010.

²⁰² Stuart Adam, James Browne, Carl Emmerson, Andrew Hood, Paul Johnson, Robert Joyce, Helen Miller, David Phillips, Thomas Pope and Barra Roantree *Taxes and Benefits: The Parties’ Plans*, Institute for Fiscal Studies, April 2015.

²⁰³ Dale Bassett, Thomas Cawston, Andrew Haldenby, Patrick Nolan, Lucy Parsons, Nick Seddon and Kimberley Trehwitt, *Budget 2010: Taking the Tough Choices*, Reform, June 2010.

²⁰⁴ This would apply to pensioners in receipt on DLA as well as working age recipients of DLA and PIP (Adam et al., *Taxes and Benefits*).

terms.²⁰⁵ Instead a new, strategic approach is needed which focuses on the drivers of expenditure.

5.2.1 Tackling the drivers behind welfare expenditure

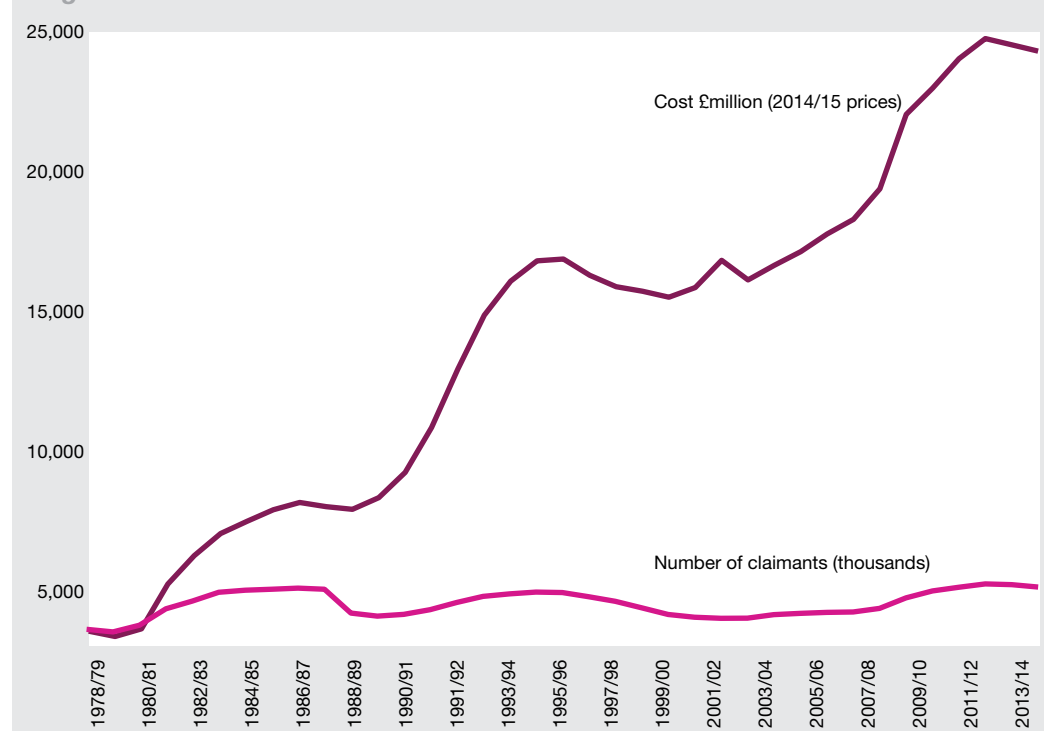
The three main drivers of working age welfare spending are Housing Benefit, Tax Credits and disability benefits. The Government should therefore focus on structural reforms to reduce costs in these areas. This will require cross-departmental working, particularly with the Department for Communities and Local Government (DCLG) to enable more house building and with BIS to support skills development and engagement with businesses on wage levels.

5.2.1.1 Housing Benefit

Providing housing for those who cannot afford it is a key plank of the welfare state and is crucial to ensuring a basic standard of living for all. The cost of this welfare state commitment has, however, increased by almost a half in real terms over the last decade. The Housing Benefit bill in 2014-15 was £24.4 billion compared to £16.6 billion in 2004-05.²⁰⁶ Equivalent to 1.1 per cent of GDP in 2004-05, Housing Benefit now stands at 1.4 per cent GDP.²⁰⁷ This increase in spending is largely a result of the change in the way successive governments have chosen to support low-income households, not an increase in generosity (see Figure 18).²⁰⁸ Instead of providing (social) housing, governments have chosen to pay for housing via the private rental market. Social housing supply has halved over the last ten years from 21,670 in 2004-05 to 10,840 in 2013-14²⁰⁹ and there are 1.8 million households on waiting lists for council housing.²¹⁰

Figure 18: Housing Benefit caseload and expenditure

Source: Department for Work and Pensions (2015), *Outturn and forecast: Budget 2015*



²⁰⁵ Office for Budget Responsibility, *Welfare Trends Report*.

²⁰⁶ Department for Work and Pensions, *Benefit expenditure and caseload tables, Outturn and forecast: Budget 2015*, March 2015.

²⁰⁷ Office for Budget Responsibility, *Welfare Trends Report*.

²⁰⁸ Andrew Hood and Laura Oakley, *The social security system: long-term trends and recent changes*, Institute for Fiscal Studies, November 2014.

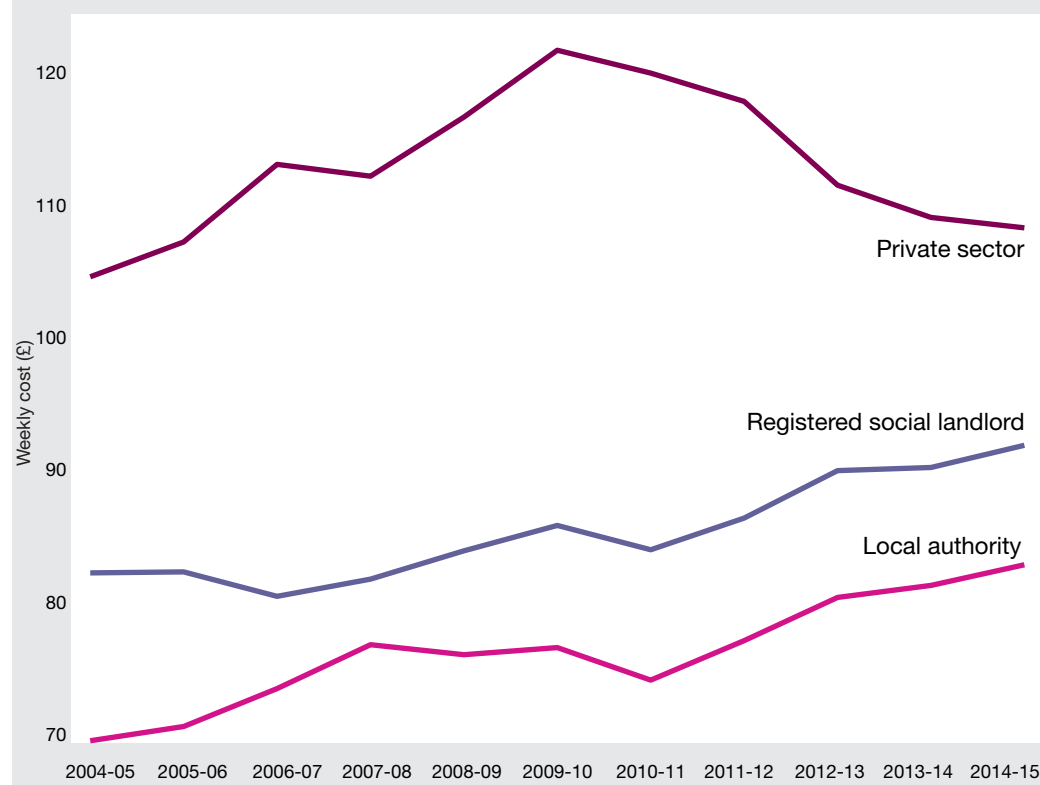
²⁰⁹ Includes both local authority and housing association housing; Department for Communities and Local Government, *Affordable Housing Supply: April 2013 to March 2014 England*, October 2014.

²¹⁰ Department for Communities and Local Government, "2010 to 2015 Government Policy: Rented Housing Sector," 7 May 2015.

As private rents are significantly more expensive than social rents (see Figure 19), this shift in policy has led to higher spending for little additional benefit, an inefficient way to help low income families meet their housing needs.

Figure 19: Housing Benefit: average weekly rent

Source: Department for Work and Pensions (2015), *Outturn and forecast: Budget 2015*.



The Government has committed to extending the Right to Buy scheme to Housing Association tenants. This policy risks depleting the stock of social housing further and therefore increasing the Housing Benefit bill in the longer term. From 1980 when then Prime Minister Margaret Thatcher introduced Right to Buy through to the end of 1990 just shy of a million houses were sold. Fewer than half that number were built. Since then, a further 915,000 houses have been sold through the Coalition Government's Right to Buy programme, with just 545,000 local authority and housing association houses built.²¹¹ The Government has pledged a one-for-one replacement of the houses sold through the extension of the programme, but if taxpayers are to get better value for money for the billions they spend on Housing Benefit significantly more social housing is needed. Careful consideration needs to be given to the longer term implications of this policy.

Any substantial increase in house building will require sustained focus by the Government on ensuring the conditions for it: cheap land, flexibility in planning and investment.

Recommendation

The Government should reverse the shift towards private rental accommodation by investing in new social housing. This would require substantial capital investment, but over time would reduce the Housing Benefit bill and ensure that taxpayer money is being spent more efficiently.

²¹¹ Department for Communities and Local Government, "Social Housing Builds Statistical Data Set, Table 213"; Department for Communities and Local Government, "Social Housing Sales Statistical Data Set, Table 678."

5.2.1.2 Tax Credits

Tax Credits were introduced in 2003 to help tackle poverty and make work pay for low earners. These objectives are in line with a policy approach that seeks to increase wellbeing.

In the last decade, the Tax Credits bill has increased by a fifth in real terms, from £23.6 billion in 2004-05 to £28.8 billion in 2014-15.²¹² If the polarisation of the labour market continues, the increasing number of low skill, low pay jobs means the Tax Credits bill is likely to keep rising.

The inadequacy of the National Minimum Wage has led to increasing calls for the introduction of a Living Wage, with many employers voluntarily paying it.²¹³ This, however, is easier for sectors that do not have high levels of low skill jobs. 58 per cent of people earning below the Living Wage work in Hotel and Restaurants, Wholesale and Retail, and Admin and Support Services.²¹⁴ Any drive by government to increase wages must therefore consider the potential employment impact by sector, and in particular the likelihood that job losses will have the biggest impact on the least skilled.²¹⁵ A better understanding is therefore needed of the trade-off between a loss of jobs and higher wages and this should take into account the wellbeing value of work for those with very low or no skills.

The Social Mobility and Child Poverty Commission has recommended that the Low Pay Commission “calculate non-binding sectoral and regional floors on pay so that employers, workers and trade unions have a credible reference point from which to make progress towards higher pay”.²¹⁶ This is a sensible approach and the Government should press ahead with this.

Recommendation

The Government should have as an objective a reduction in the number of people on low pay. This should include encouraging employers to pay higher wages for those at the bottom of the earnings scale, and applying ministerial pressure where appropriate.

In addition, the Government should look at how people in low paid jobs can be supported to progress in work. Evidence of what works in this area is limited and therefore the Government should invest in testing different models. A social investment model similar to the Department for Work and Pensions Innovation Fund could be used.

5.2.1.3 Out of work sickness and disability benefits

Expenditure on out of work incapacity-related benefits has remained stubbornly high over the past decade despite significant reform. In 2004-05 the benefits collectively cost £15.4 billion; in 2014-15 the figure was £14 billion. The forecast for 2019-20 is £13.7 billion, nearly all of which is ESA.²¹⁷

Unconditional support for those who are deemed, due to incapacity, unable to work or carry out any work related activity is a key principle of the welfare state. However, for many of those claiming sickness and disability benefits, the system is doing more harm than good. Given the well evidenced benefits of work, including for many sick and disabled people, and that labour market detachment increases over time,²¹⁸ the high number of people on these benefits coupled with the very low off-flow rates is devastating.

²¹² Department for Work and Pensions, *Benefit expenditure and caseload tables, Outturn and forecast: Budget 2015*, March 2015.

²¹³ Social Mobility and Child Poverty Commission, *State of the Nation 2014: Social Mobility and Child Poverty in Great Britain*, October 2014.

²¹⁴ Ibid.

²¹⁵ David Neumark and William Wascher, *Minimum wages and employment: A review of evidence from the new minimum wage research*, November 2006.

²¹⁶ Social Mobility and Child Poverty Commission, *State of the Nation 2014*.

²¹⁷ Department for Work and Pensions, *Benefit expenditure and caseload tables, Outturn and forecast: Budget 2015*.

²¹⁸ Carol Black and David Frost, *Health at work: An Independent Review of Sickness Absence*, November 2011.

The replacement of Incapacity Benefit (IB) with ESA was designed to help address the high numbers of people ‘parked’ on out of work sickness benefits. Announcing the reform, then Secretary of State John Hutton said “Nine out of ten people who come on to incapacity benefit expect to get back into work, yet if you have been on incapacity benefit for more than two years, you are more likely to retire or die than ever get another job. That cannot be right.”²¹⁹

In its 2006 Green Paper *A New Deal for Welfare* the then Government stated their aim to “reduce by 1 million the number on incapacity benefits”.²²⁰ Eligibility for ESA is determined by a Work Capability Assessment (WCA), which assesses an individual’s capacity for work. Claimants can either be found ‘Fit for Work’ and moved on to Jobseeker’s Allowance (JSA) or be found eligible for one of two groups within ESA – the Work Related Activity Group (WRAG) or the Support Group. Claimants in these groups are given a ‘prognosis’ which determines when they will be required to attend a reassessment WCA.

These reforms have had limited success. As of August 2014 there were almost 2.4 million people on incapacity benefits (ESA and IB), essentially the same number as in August 2008, shortly before ESA was introduced for new claims.²²¹ However within this, over half a million people were in the ‘assessment phase’, meaning they had not yet had their WCA to determine whether they were indeed eligible for the benefit. Nonetheless, of those who do undertake the WCA a high proportion then move fully onto ESA either in the WRAG (meaning they are able to undertake activity designed to help them move towards work) or the Support Group (meaning they are not required to participate in this type of activity). 70 per cent of claimants whose assessment was completed between July and September 2014 moved into one of these groups; 30 per cent were found Fit for Work.²²² A significant proportion of people who are found Fit for Work appeal and then move into the WRAG or Support Group: to date 39 per cent of all Fit for Work decisions have been appealed against and 51 per cent of those had their decision overturned.²²³

Despite a clear objective of ensuring fewer people languished on incapacity benefits, 51 per cent of those in the WRAG and 43 per cent of those in the Support Group have already been on ESA for more than two years.²²⁴ Indeed the latest data on reassessment after a claimant’s prognosis period shows 85 per cent remaining on ESA. Too many people for whom a move (back) into work could improve their health and wellbeing are instead, once again, becoming trapped on benefits.

Reforming ESA

In short, ESA is replicating the problems of IB. Part of this is the failure to reduce the attractiveness of the benefit. As the Organisation for Economic Co-operation and Development (OECD) pointed out in its 2010 cross-country review:

*“Much of the widespread and increased use of disability benefit systems over the past two decades is related to the large and, in many cases, increasing difference between disability benefits and other working-age benefits; in particular differences in benefit generosity, participation and job-search requirements and the way in which beneficiaries are reactivated and supported into work.”*²²⁵

The introduction of UC provides an opportunity to address this.

²¹⁹ BBC News, “Hutton Unveils Benefits Shake-up,” 24 January 2006.

²²⁰ David Freud, *Reducing Dependency, Increasing Opportunity: Options for the Future of Welfare to Work*, 2007.

²²¹ ESA was introduced in October 2008 for new claims and IB claimants were migrated across to ESA over the last Parliament. In August 2008 there were 2,379,460 IB claimants, in August 2014 there were 2,367,017 ESA and IB claimants, just 12,290 fewer (Department for Work and Pensions, *Tabulation Tool*, <http://tabulation-tool.dwp.gov.uk/100pc/tabtool.html>, accessed 5 June 2015).

²²² Department for Work and Pensions, “Employment and Support Allowance (ESA),” 16 April 2015.

²²³ Ibid.

²²⁴ Department for Work and Pensions, *Tabulation Tool*.

²²⁵ OECD, *Sickness, Disability and Work*, November 2010.

The rate

The weekly ESA WRAG and Support Group rates are respectively 40 and 50 per cent higher than that of JSA.²²⁶ Whilst, as already highlighted, both financial and non-financial elements contribute to claimant behaviours, the monetary incentive for claimants to 'fail' the WCA and move onto ESA is significant.

Lowering the rate of ESA WRAG to that of JSA would re-balance the incentives and further contribute to making work pay. Contributions towards additional costs associated with a disability would continue to be paid via PIP, unrelated to a claimant's work status. This, however, would increase the incentive for people to be placed in the Support Group.²²⁷ It may therefore be worth exploring the viability of introducing a single rate for out of work benefits. In doing so policy makers would need to consider the different purpose of the ESA Support Group, which currently has no work related conditionality due to the assumption that claimants' disability or health condition means they are unlikely to ever work – an assumption which in itself may be problematic. For those who are unable to increase their income through work, a higher payment may be appropriate to ensure a standard of living above the basic level provided through JSA.

The gateway

The WCA was introduced to provide a tougher gateway than had been in place for IB, ensuring eligibility for ESA was kept to those without immediate capacity for work. Since its introduction in 2008 the WCA has received heavy criticism. Multiple independent reviews have led to some reform, but it remains a discredited model. In a mid-2014 report, the Work and Pensions Select Committee stated:

*"The WCA itself is flawed in that it frequently fails to provide an accurate assessment of the impact of the claimant's condition on their fitness for work or work-related activity."*²²⁸

Quite clearly, the assessment is not fit for purpose. The very low off-flow rate has already been mentioned. The composition of those on the benefit is also of concern: 48 per cent of people on ESA post-assessment have "Mental and Behavioural Disorders".²²⁹ Whilst this is a broad category, a significant proportion are likely to be suffering from 'mild/moderate' problems.²³⁰ In their independent review of sickness absence, Dame Carol Black and David Frost highlight that "[m]uch absence and inactivity is due to comparatively mild illness which is compatible with work" and that "[m]any people with long-standing health conditions are in work".²³¹ Indeed the OECD highlights that "Mental health tends to deteriorate significantly when people leave employment and improve again when people move back into employment."²³² Dr Litchfield in his fifth independent review of the WCA raised as a particular area of concern the number of young people assigned to the Support Group for mental health problems.²³³

As a basic principle, eligibility for benefits should be separated from assessment of employment support needs. An application for UC should involve the online collection of data pertinent to someone's distance from the labour market, akin to Australia's Job

226 The ESA WRAG weekly rate is £102.15, for the ESA Support Group it is £109.30. This compares to £73.10 for JSA.

227 For example in his fifth independent review of the WCA, Litchfield stated: "Time limiting applies only to those placed in the WRAG and therefore increases the existing financial incentive for individuals to be placed in the Support Group, if they need to remain on the benefit beyond 12 months", (Paul Litchfield, *An Independent Review of the Work Capability Assessment: Year Five*, November 2014).

228 House of Commons Work and Pensions Select Committee, *Employment and Support Allowance and Work Capability Assessments, First Report of Session 2014-15*, July 2014.

229 Department for Work and Pensions, *Tabulation Tool*, August 2014 data.

230 "common health problems...account for two-thirds of sickness absence and long-term incapacity (ie. mild/moderate mental health, musculoskeletal and cardio-respiratory conditions)." (Waddell and Burton, *Is Work Good for your Health and Wellbeing?*)

231 Black and Frost, *Health at work*.

232 OECD, *Sickness, Disability and Work*.

233 Litchfield, *An Independent Review of the Work Capability Assessment*.

Seeker Classification Instrument.²³⁴ For example their age and employment history over, say, the past five years (using DWP and HM Revenue and Customs data); where they live; any diagnosed health conditions (with an option to provide health practitioner details and permission to contact them); and a psycho-social test. For those flagged as having a significant health-related barrier to work, a comprehensive ‘biopsychosocial’ assessment – ie. one which considers biological, psychological and social barriers to work – should be undertaken separately to produce a rehabilitation plan for claimants.

Conditionality

Given that people with common health problems should be “encouraged and supported to...(re-)enter work as soon as possible” due to the physical, mental and social benefits, the low levels of conditionality within ESA are potentially harmful.²³⁵ Work Programme job outcome rates are instructive. Provider payment rates are higher for those in the JSA ex-IB group (ie. for claimants who moved from IB onto JSA) than for participants in the ‘new ESA’ payment group because they are judged harder to get into work. Yet the job outcome rates for the harder to help JSA ex-IB cohort are 18 per cent higher than those for the short prognosis new ESA claimants.²³⁶ DWP should look into what is driving this, paying particular attention to the effect of the differing levels of conditionality for JSA and ESA.

In February 2015 the Prime Minister announced that he had asked Dame Carol Black to undertake a review into how people with treatable conditions can be best supported, including “consider[ing] whether people should face the threat of a reduction in benefits if they refuse to engage with a recommended treatment plan.”²³⁷

Recommendation

The Government should, as a priority, review the principles upon which out of work support for those with a disability or health condition is built. In doing so it should:

- pay particular attention to ensuring that the benefit encourages and supports claimants to move into work as quickly as possible;
- reduce the Work Related Activity Group rate to that of the Jobseeker’s Allowance;
- explore the advantages and disadvantages of a single rate out of work benefit;
- overhaul the gateway and assessment process to ensure that recipients receive personalised, rehabilitative employment support as quickly as possible; and
- consider the scope for mandating claimants to follow a rehabilitation plan and engage fully in back-to-work programmes.

²³⁴ The Job Seeker Classification Instrument assesses a job seeker’s relative difficulty in getting into and staying in work. It helps to determine the level of support a job seeker will need to help them find work. Job seekers are assessed when they register for employment assistance and if they experience a significant change in their circumstances. They are allocated to one of the three levels of employment assistance – Streams 1, for work ready job seekers, 2, or 3, as appropriate to their needs. Job seekers who have complex or multiple barriers to employment may be allocated to Stream 4 services or referred to other services such as Disability Employment Services. The Classification Instrument uses a range of factors to determine a person’s distance from the labour market, including; employment history, geographical location, ethnicity, medical history and living circumstances. For the full list of factors assessed, visit <http://employment.gov.au/job-seeker-classification-instrument>.

²³⁵ Waddell and Burton, *Is Work Good for Your Health and Well-Being?*

²³⁶ 19.3 per cent of JSA ex-IB claimants referred to the Work Programme in December 2012 achieved a job outcome by December 2014 compared to 15.8 per cent of the equivalent New ESA (excluding 12 month prognosis) claimants (Department for Work and Pensions, *Tabulation Tool*, <http://tabulation-tool.dwp.gov.uk/100pc/tabtool.html>, accessed 5 June 2015).

²³⁷ Rowena Mason, “David Cameron calls on obese to accept help or risk losing benefits,” *The Guardian*, 14 February 2015.

5.3 Conclusion

The welfare state is central to the wellbeing of the nation. Multiple objectives, however, require trade-offs to be made and government must balance the interests of claimants and taxpayers. The legitimacy of the welfare system relies in large part on perceptions of fairness, a theme that the Coalition Government adopted and one that the new Government looks set to continue. However, where the Coalition was able to make significant cuts to expenditure, the current Government faces a harder task. The Government must avoid making short-term cuts that will erode the wellbeing of those on very low incomes and instead focus on the drivers of demand. As such, the Government should prioritise moving people into and keeping them in work. It should also focus on addressing the structural drivers of the three biggest benefit budgets: Tax Credits, Housing Benefit and sickness and disability benefits.

6

Pensions

William Mosseri-Marlio

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Pensions policy poses a significant, albeit slow burning, challenge for the new Government. The Department for Work and Pensions (DWP) estimates 11.9 million people are undersaving for their retirement.²³⁸ Meanwhile demographic shifts will see yearly expenditure on the State Pension and pensioner benefits grow by 1.7 per cent of GDP between 2015-16 and 2064-65.²³⁹ This is bad news for both public finances and the wellbeing of pensioners.

Action is needed, but caution is also called for. The full implications of policies affecting retirees take generations to emerge, people need time to be able to prepare for their futures, and retirement needs can be complex and varied. When navigating these challenges, the Government should be guided by three principles. Pension policy should:

- Provide a framework for everyone to sustain a healthy level of wellbeing in retirement by alleviating poverty and helping savers meet their aspirations.
- Extend choice to those who seek it, while recognising varying capabilities and the need to design regulatory frameworks which support decision-making.
- Create a financially sustainable system that does not undermine the wellbeing of future citizens through the crowding out of other public services or accrual of debt.

In practice, these principles support a core State Pension aimed at reducing poverty, supplemented by targeted assistance for those most in need, private savings to help individuals maintain their living standard in retirement, and support for pensioners who want to work. By giving individuals a range of tools to smooth consumption, pool risk and liquidate assets, this ‘mixed model’ system offers choice to the individual and financial resilience to the State.

This chapter briefly describes the current pensions system, before exploring how *Reform*’s principles might be realised. It addresses the key pillars of the current retirement framework – state provision, private provision, and income from work – and offers recommendations to the new Government along the way.

6.1 Current system

The State Pension is a universal benefit accessible to all who have reached the State Pension Age (SPA). Since 1925, the State Pension has in part functioned on a contributory basis, whereby the level of contribution determined the benefits received. This contributory element has steadily been eroded, and the introduction of the Coalition Government’s ‘Single Tier Pension’ – a flat rate State Pension which combines the current Basic State Pension and State Second Pension – will continue this trend.²⁴⁰ The new benefit was intended to be simpler to understand, provide greater surety of income, and make it pay to save by placing the rate above the minimum guarantee.

The Coalition Government also introduced crucial changes to the SPA. Uprating of the SPA for women was accelerated, and increases in the SPA to 66 and 67 were brought forward – these were positive steps towards curbing the long run cost of pensions.²⁴¹ Five yearly reviews of the SPA were also introduced, giving much needed structure to a politically contentious issue, with supporting documentation setting out the expectation that a third of adult life will be spent in receipt of the State Pension.²⁴²

238 Department for Work and Pensions, *Scenario Analysis of Future Pension Incomes*, August 2014.

239 Office for Budget Responsibility, *Fiscal Sustainability Report: June 2015*, June 2015.

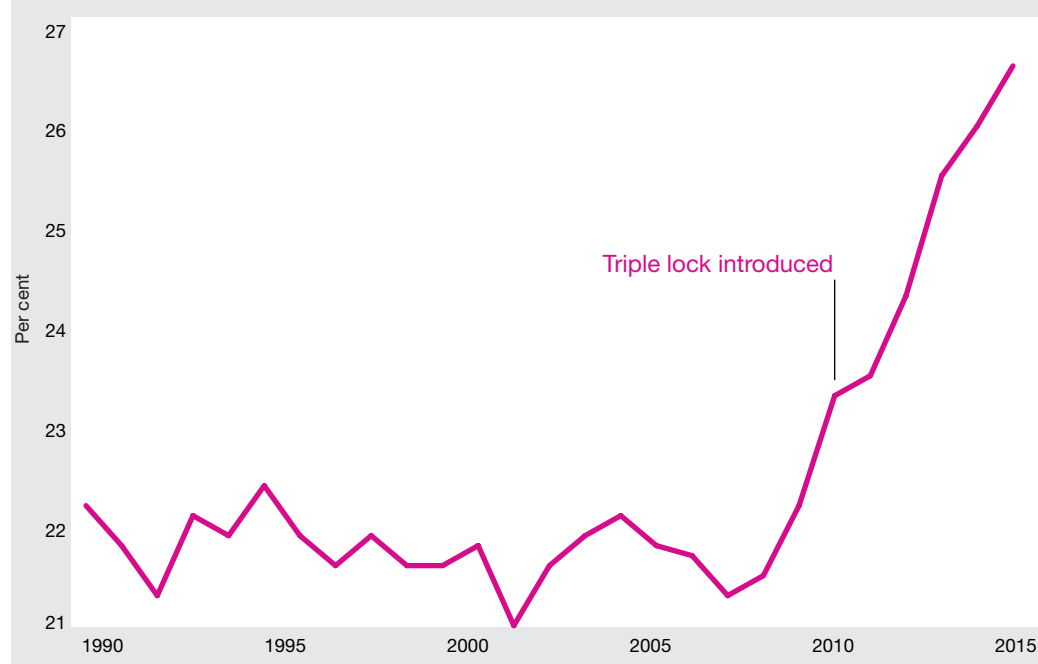
240 To receive the full single tier pension, individuals will need to have 35 qualifying years.

241 HM Government, *Pensions Act 2011*; HM Government, *Pensions Act 2014*.

242 HM Treasury, *Autumn Statement 2013*, December 2013.

For many years the State Pension was indexed against inflation.²⁴³ This offered protection against rising prices, but during periods of strong wage growth, the relative economic position of pensioners – who were already relatively poor – diminished. The previous Labour Government responded to these legitimate concerns by pledging to reinstate the earnings link by 2012, but the Coalition Government went further by introducing the so-called ‘triple lock’ in 2010 (see Figure 20). The State Pension is now uprated by the highest out of Consumer Price Inflation (CPI), average earnings or 2.5 per cent, ensuring pensioners benefit from the prosperity of the working population, are protected against inflation, and receive meaningful rises each year. This mechanism will be a significant financial burden on future administrations.

Figure 20: Weekly pensioner income as a percentage of average weekly wage
Sources: Office for Budget Responsibility (2014), *Welfare Trends Report*; Office for National Statistics (2015), *Average Weekly Earnings Database*.



In addition to the core State Pension, pensioners receive various universal benefits, including the Winter Fuel Allowance, free TV licences, and free bus passes. These perks account for just 2.5 per cent of the £121 billion pensioner budget, but it is not money well spent.²⁴⁴ Pensioners also have access to a means-tested Pension Credit, although the introduction of the Single Tier Pension will largely phase this out.

State support in retirement is supplemented by private pension provision, a market that has changed significantly over the last fifty years. ‘Final salary’ or Defined Benefit (DB) pension schemes, where members are guaranteed a particular level of income in retirement, have gradually been replaced with Defined Contribution (DC) provision, where individuals and their employers contribute to a pension pot over the course of working life (see Figure 21). A number of factors have caused this shift, including the challenge of longevity, investment risk, a more mobile workforce and changes in legislation.²⁴⁵

²⁴³ The State Pension was uprated by earnings between 1974 and 1980, after which RPI indexation was used. The Labour Government introduced a 2.5 per cent minimum increase in 2001. (Djuna Thurley, *Pension Uprating: Background*, July 2010).

²⁴⁴ Winter Fuel Allowance and free TV licences will account for £2.8 billion of expenditure in 2015-16, however the cost of free buses passes is more difficult to judge. Bus subsidies and concessionary fares cost the Department for Transport £268 million in 2014-15. (Department for Transport, *Annual Report and Accounts 2013-14*, July 2014; Carl Emmerson, Paul Johnson and Robert Joyce, *The IFS Green Budget 2015*, February 2015).

²⁴⁵ Leandro Carrera, *The Changing Landscape of Pension Schemes in the Private Sector in the UK*, June 2012.

Figure 21: Number of active members of private sector occupational pension schemes by benefit structure

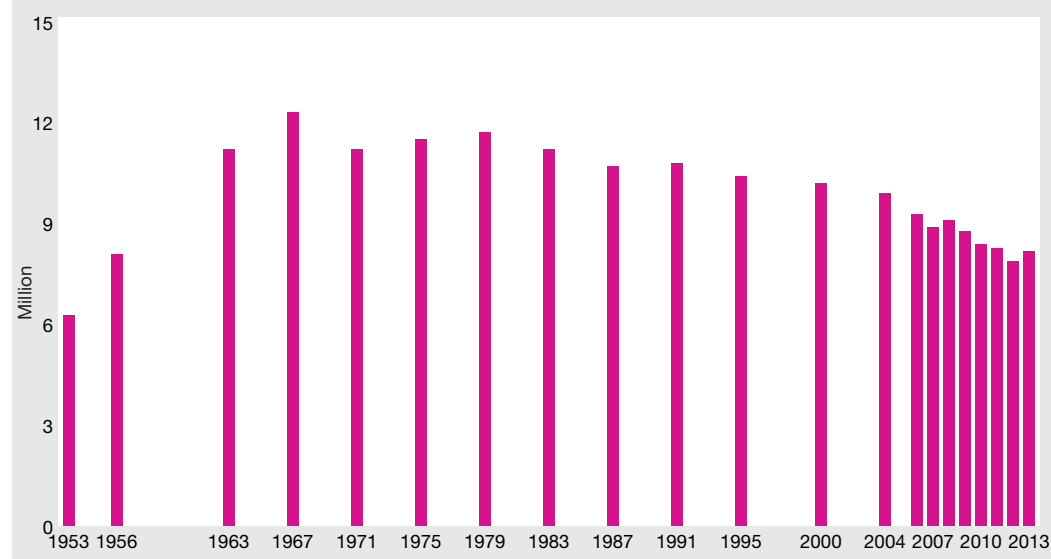
Source: Office for National Statistics (2014), *Occupational pension schemes survey 2013*.



The shift to DC pensions has also taken place at a time when the number of individuals participating in a workplace pension has declined (see Figure 22). This trend is beginning to reverse thanks to the welcome introduction of auto-enrolment, whereby employees are enrolled into a workplace pension scheme on an opt-out basis. Implementation of this policy was initiated by the previous Labour administration, continued by the Coalition Government, and will be completed by the new Government. The minimum total contribution rates for these workplace pension schemes will be 8 per cent by 2018, made up of at least 3 per cent paid by the employer (the minimum contribution rate started at 2 per cent and will increase to 5 per cent in 2017). However this policy has come at a price. In addition to the financial cost of mandatory contributions, the Government estimates that the regulatory burden on business as a result of auto-enrolment will be £2.8 billion.²⁴⁶

Figure 22: Number of active members of occupational pension schemes

Source: Office for National Statistics (2014), *Occupational pension schemes survey 2013*.



²⁴⁶ Department for Work and Pensions, *Impact Assessment: Workplace Pension Reforms*, May 2012.

Previously pensioners were compelled to purchase an annuity – a guaranteed lifetime income product – with their DC pension pot. Compulsory annuitisation was abolished in 2011, and the 2014 Budget built on these changes. The Chancellor's freedom and choice reforms – which removed the punitive levels of taxation previously levied on those wishing to access their DC savings – was a positive step towards recognising some individuals are not well served by annuities.²⁴⁷ This adds flexibility to the generous tax treatment of pensions. Contributions are broadly exempt from taxation, as are investment returns.²⁴⁸ And while pension income is subject to tax at the marginal rate, a quarter of savings can be accessed tax free. This system is typically known as EET (Exempt, Exempt, Taxed).

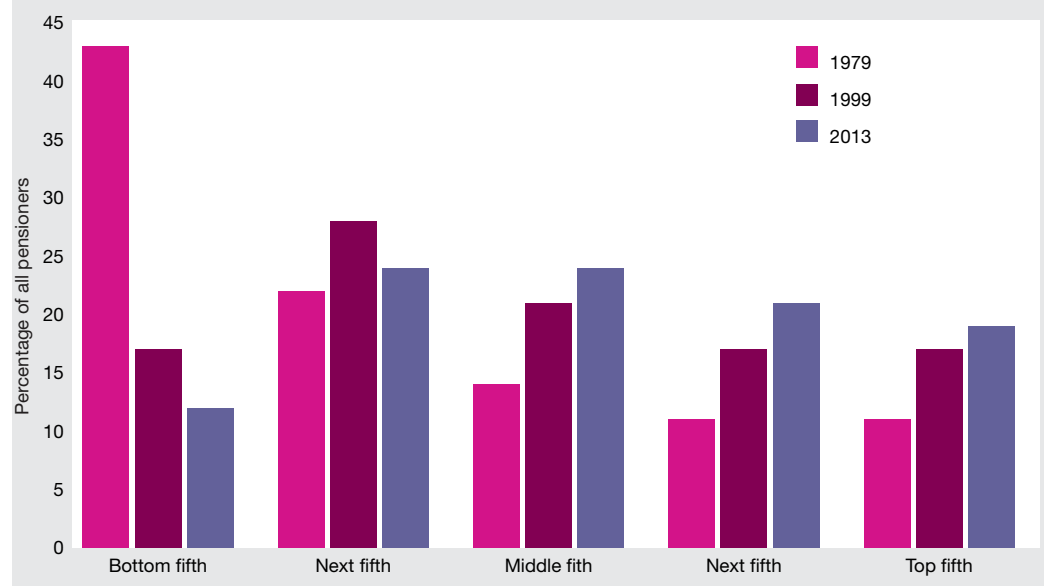
6.2 A more sustainable and targeted state pillar

The OBR projects public expenditure on pensioners will rise from 6.3 per cent of GDP in 2015-16 to 8.0 per cent of GDP in 2064-65.²⁴⁹ While some of this growth is the inevitable result of a society with more pensioners, the vast majority is because of an increasingly generous State Pension.

Historically there may have been a rationale for this: pensioner poverty was a considerable public policy problem until the early 2000s.²⁵⁰ However this is no longer the case. Once housing costs are taken into account, median pensioner incomes are now higher than non-pensioner incomes.²⁵¹ This is not to say all pensioners are well off – clearly that is not true. But it does mean that increasing universal transfers to a group that is now relatively affluent will mean fewer resources for those in greater need (see Figure 23).

Figure 23: Pensioners' position in the overall net income distribution, after housing costs

Source: Department for Work and Pensions (2014), *The Pensioners' Incomes Series*.



²⁴⁷ As Baroness Altmann has argued, "the annuity will cover against one risk. It is like buying a house and insuring against fire. The annuity will cover you against the risk of living a very long time, but there are many other risks in retirement that people face that certainly a standard annuity will not cover you for. It is like having fire insurance but then you get flooded or burgled and you do not have any cover. The standard annuity will not cover you against inflation or for a partner." (House of Commons Treasury Select Committee, *Budget 2014, Thirteenth Report of Session 2013-14*, May 2014).

²⁴⁸ Tax-free contributions are subject to annual and lifetime limits. Returns on savings can be affected by both corporation tax and stamp duty on share transactions. (Emmerson, Johnson and Miller, *The IFS Green Budget 2014*).

²⁴⁹ Office for Budget Responsibility, *Fiscal Sustainability Report: June 2015*.

²⁵⁰ Tom McInnes, Hannah Aldridge, Sabrina Bushe, Adam Tinson and Theo Barry Born, *Monitoring Poverty and Social Exclusion 2014*, 2014.

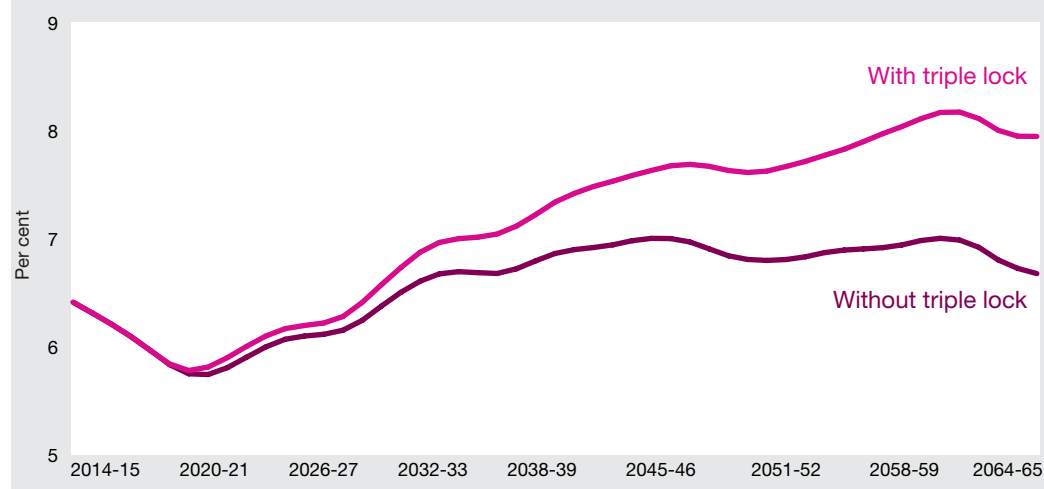
²⁵¹ Andrew Hood, "Pensioners Are Now Richer than the Rest and We Should Celebrate That," *Daily Telegraph*, 24 February 2015. As DWP has noted, incomes after housing cost is the best measure for pensioners since three quarters currently own their homes outright. However even before housing costs are taken into account, 20 per cent of all pensioners are in the bottom quintile of the overall population net income distribution – average for the overall distribution. (Department for Work and Pensions, *The Pensioners' Incomes Series*, July 2014).

6.2.1 A sustainable State Pension

The triple lock ensures pensioners make relative gains on non-pensioner households whenever earnings growth is surpassed by inflation or 2.5 per cent. This ratchet effect is costly. Compared to earnings indexation, the impact of the triple lock by 2064-65 will be an increase in *annual* State Pension expenditure equivalent to 1.3 per cent of GDP (see Figure 24).²⁵² Indeed, the triple lock is the primary driver of long-term spending growth on pensioners, accounting for more than 80 per cent of increased expenditure over the time period.²⁵³

Figure 24: Expenditure on the State Pension and pensioner benefits as a percentage of GDP, with and without the triple lock¹⁷

Sources: Office for Budget Responsibility (2015), *Fiscal Sustainability Report*.



A radical way of better targeting the State Pension would be to means test it altogether. Whilst initially attractive, there are significant concerns about the effect this would have on incentives to save, particularly with 11.9 million of the current workforce already not saving enough to maintain their standard of living in retirement.²⁵⁵ One way of resolving this would be the introduction of mandatory savings, much like in Australia. However this is an unattractive proposition. Compulsion will adversely affect those – such as individuals with volatile income streams – who have little reason to save consistently. Indeed from the perspective of personal wellbeing, people are far better placed than the State to make decisions about their retirement.

These considerations mean the new Government should adopt an alternative approach. Given the relatively affluent position of pensioners, the future generosity of the State Pension should be curbed by dropping the triple lock in favour of a mechanism that still maintains a basic standard for all. One option would be to introduce a ‘double lock’, whereby the minimum guaranteed increase of 2.5 per cent would be scrapped. Relative to earnings indexation, this option has the benefit of protecting pensioners’ purchasing power during periods of negative real wage growth. However given the relatively few instances when both inflation and wage growth have fallen below 2.5 per cent in the last century, it is likely the long run cost of the double lock will be similar to the triple lock.

Instead, the new Government should introduce a ‘relative earnings link’, a system similar to that implemented in Australia.²⁵⁶ Under this mechanism, the State Pension is uprated by a suitable index of inflation, however it is never allowed to fall below a certain proportion of earnings – ‘the benchmark’. During economic downturns, when inflation

²⁵² Department for Work and Pensions, *Pensions Act 2014 Impact Assessments: May 2014*, May 2014.

²⁵³ Ibid.

²⁵⁴ OBR projections assume continuation of the triple lock, and that a third of life expectancy will be spent in retirement.

²⁵⁵ Department for Work and Pensions, *Scenario Analysis of Future Pension Incomes*.

²⁵⁶ Australian Government, *Common Provisions Affecting Indexation of Pensions*, May 2015.

often outstrips earnings growth, the relative earnings link means the State Pension is uprated in line with prices. As a result, pensioners' incomes grow more than those of non-pensioners, and the State Pension as a proportion of average earnings increases above the benchmark. However, this period of generosity is eventually corrected when prosperity returns and wage growth surpasses inflation. Non-pensioner incomes appreciate faster than pensioner incomes, and pensioner incomes as a proportion of average earnings fall. This trend continues until the benchmark is hit, when the State Pension is again uprated by the earnings index.

This mechanism has two significant benefits. Unlike the earnings link, pensioners are not hit by increases in inflation during periods of declining real wages. This is particularly important given pensioners will struggle to respond to price rises by re-entering the labour market. But the relative earnings link also avoids the ratchet effect of the double or triple lock while maintaining the relative economic position of pensioners. If the relative earnings link locked pensioner incomes into the proportion of wages they are at now, the State Pension would be roughly 10 per cent lower by 2060 than would be the case under the triple lock.²⁵⁷ The relative earnings link, therefore, could save a significant proportion of the costs of the triple lock while maintaining the desirable features of the current system.

Recommendation

The Government should uprate the State Pension through an Australian-style 'relative earnings link', which increases payments with earnings during normal years but allows temporary flexibility during periods of high inflation.

6.2.2 Middle-class welfare

The relatively affluent position of pensioners means that forthcoming increases in the State Pension delivered by the triple lock are unlikely to promote wellbeing efficiently – these resources could be better spent on those in greater need. The principle underlying this reform also indicates change is needed to universal pensioner benefits. The Winter Fuel Allowance and free TV licence cost £2.8 billion each year, but they do not present good value for money.²⁵⁸ Only 12 per cent of recipients of Winter Fuel Allowance are in fuel poverty and there is no strong policy rationale for free TV licences.²⁵⁹

The Government should scrap these benefits, and combine them into a cash transfer for those paying no income tax on their pensioner income. This would both protect vulnerable pensioners and free up resources that could support wellbeing more efficiently elsewhere. However the free bus pass should be kept in place. The cost of this measure is significantly lower than the other universal benefits, and given the extensive literature on the effect of loneliness on wellbeing, there is at least a policy rationale for its continuation.²⁶⁰

However means testing presents the problem of uptake – between 32 and 38 per cent of pensioners eligible for pension credit are estimated to not claim it.²⁶¹ Much like the State Pension, there is also the question of whether a means-tested cash benefit would affect incentives to save. While significant, these obstacles are not insurmountable. Take up of pensioner credit is poor due to complexity. And while a means-tested cash benefit may erode incentives to save, these low income recipients would not have been in a position to save in the first place. Indeed, low income groups are relatively well placed to maintain their living standard in retirement: DWP research found only 1 per cent of undersavers are in the lowest income band (under £12,300 per year).²⁶²

²⁵⁷ Department for Work and Pensions, *Pensions Act 2014 Impact Assessments: May 2014*.

²⁵⁸ Emmerson, Johnson and Joyce, *The IFS Green Budget 2015*; Department for Transport, *Annual Report and Accounts 2013-14*.

²⁵⁹ Patrick Nolan, *The Fairness Test*, March 2011.

²⁶⁰ Bus subsidies and concessionary fares cost the Department for Transport £268 million in 2014-15.

²⁶¹ Lucy Radford, *Quantitative Evaluation of the Pension Credit*, 2012.

²⁶² Department for Work and Pensions, *Scenario Analysis of Future Pension Incomes*.

Recommendation

The Government should scrap the Winter Fuel Allowance and free TV licence, with cash support reserved for the most vulnerable pensioners. To combat pensioner loneliness, it should retain free bus passes.

6.3 Strengthening the private pillar

The existing system of state support for pensioners is unfunded. Today's workers are not asked to pay for their own retirement, but for the retirement of the current cohort of retirees. This arrangement is perfectly sustainable when the ratio of workers to pensioners is either constant or growing. But it is not when increasing longevity reduces the number of workers available to support pensioners. As a result, the shortfall between the National Insurance Contributions of today's workers and the amount being drawn down by the current cohort of retirees will have to be made up through general taxation, spending cuts, or debt.

One way of avoiding this transfer of wealth between generations is to encourage individuals to save for their own retirements, rather than rely on the State to smooth their income via taxation. This not only avoids the deadweight losses of the tax system. It also gives individuals the opportunity to plan for their retirement in ways they see fit.

However, concerns of a 'savings gap' have been fuelled by the fall in pension scheme participants and the transfer to less generous DC schemes, where contribution rates are half those of DB schemes.²⁶³ In itself, these trends do not confirm the existence of a savings gap – pensions are not the only savings instrument available. But they are by far the most significant element of household savings (see Figure 25).

Policymakers' concerns are further supported by DWP projections of 'adequate replacement rates' – a measure of the extent to which an individual's savings will help them maintain their living standards in retirement.²⁶⁴ Even after the effects of auto-enrolment are taken into account, 11.9 million people currently in the workforce will not be able to sustain their present standard of living in retirement.²⁶⁵ Middle and high income earners are most exposed: indeed, 67 per cent of earners over £52,000 will face inadequate incomes in retirement.²⁶⁶ If individuals in this segment of the population are to maintain their standard of living in later life, they will need to save a considerable proportion of their income – something that is clearly difficult at the moment.

²⁶³ Department for Work and Pensions, *Framework for the Analysis of Future Pension Incomes*, September 2013.

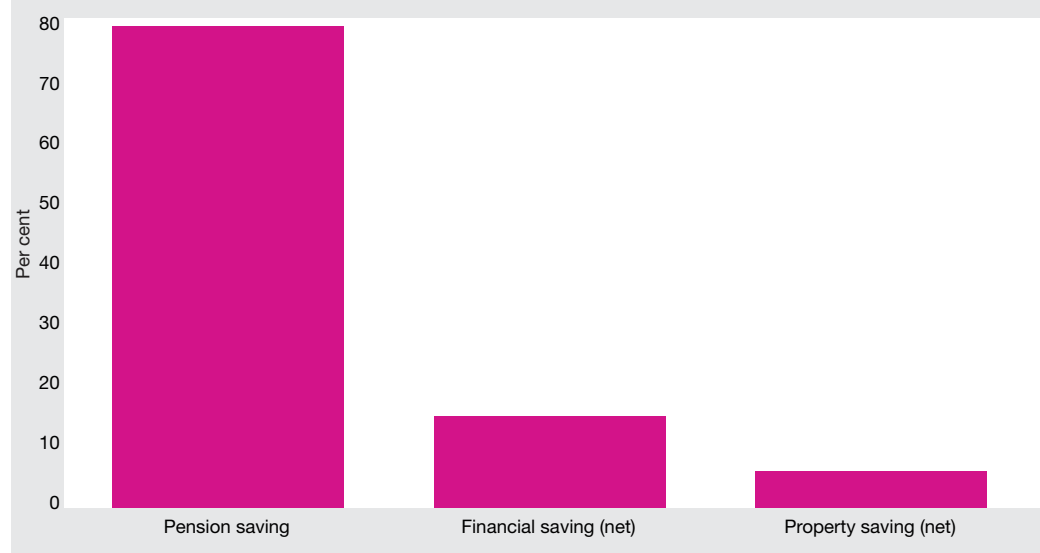
²⁶⁴ Ibid.

²⁶⁵ This figure might underestimate the true scale of the problem. DWP projections currently assume the State Pension will be uprated by the triple lock, a policy that – as 6.2 highlighted – will prove costly in the long run. (Department for Work and Pensions, *Scenario Analysis of Future Pension Incomes*).

²⁶⁶ Ibid.

Figure 25: Aggregate net saving in households where the household head is aged 50-64

Source: Office for National Statistics (2013), *Pension Trends Chapter 10: Saving for retirement*.



6.3.1 Removing barriers to saving

These findings are exactly what behavioural economics would suggest. Procrastination, status quo bias, loss aversion, and hyperbolic discounting mean individuals who want to save struggle to do so.²⁶⁷ This does not mean the Government should be able to decide whether, and how much, an individual should save. Instead, it should provide a framework in which individuals can more easily take action to save for themselves.

One such attempt was the introduction of auto-enrolment. The policy has already enrolled 5.2 million into a workplace pension, however concerns remain.²⁶⁸ The staging of small businesses – those who are likely to have less experience of workplace pensions – is only now taking place. Indeed, just 3 per cent of employers have joined the auto-enrolment network, with the remaining to enrol their staff between 2015 and 2018.²⁶⁹ More importantly, it is too early to tell whether auto-enrolment has succeeded in encouraging *additional* savings, and evidence from overseas is not wholly positive. The New Zealand Treasury, in its initial evaluation of their own auto-enrolled pension scheme, concluded “in the long run, the effect on net national saving appears marginal at best.”²⁷⁰

Despite these challenges, the next step must be to support those who want to increase their contribution rates. Evidence suggests ‘auto-escalation’ – whereby individuals pre-commit to increasing their contribution rates when their pay increases – could significantly help. Trials in America found savings rates for those enrolled into an auto-escalation scheme increased from 3.5 per cent to 13.6 per cent, and that retirement income projections for participants aged 25 nearly doubled.²⁷¹ Crucially, these schemes helped even those on very high incomes improve their replacement rates – the group most at risk of disappointment in the UK.²⁷²

If the State were to require all pension schemes auto-escalated, regulatory and administrative burdens would be significant. Indeed, in America, schemes as such ‘Save More Tomorrow’ have been run out of private companies, rather than the federal

²⁶⁷ Richard Thaler and Shlomo Benartzi, “Save More Tomorrow: Using Behavioral Economics to Increase Employee Saving,” *Journal of Political Economy*, Vol 112, No. S1 (2004).

²⁶⁸ The Pensions Regulator, *Automatic Enrolment: Declaration of Compliance Report, July 2012 - End April 2015*, May 2015.

²⁶⁹ National Employment Savings Trust, *NEST Insight 2015: Taking the Temperature on Auto-Enrolment*, 2015.

²⁷⁰ David Law, Lisa Meehan and Grant MacDonald Scobie, *KiwiSaver: An Initial Evaluation of the Impact on Retirement Saving*, December 2011.

²⁷¹ Thaler and Benartzi, “Save More Tomorrow.”

²⁷² Department for Work and Pensions, *Scenario Analysis of Future Pension Incomes*.

government. But the State could require that every pension scheme gives individuals the option to opt into, or out of, an auto-escalation programme. The Government should review the feasibility of this option, as well as evaluate measures to help those marginalised from the auto-enrolment system, such as the self-employed.²⁷³

Recommendation:

The Government should conduct a feasibility study of auto-escalation, as well as evaluate measures to help those marginalised from the auto-enrolment system, such as the self-employed.

6.3.2 Tools for retirement planning

A significant cause of inadequate savings is the complexity of retirement decisions. Savers need to juggle a number of risks, including longevity and inflation, and the new environment of freedom and choice makes retirement decisions harder still. To tackle this, the Government unveiled Pension Wise to help support retirees understand their options, the benefits and risks of each, and how these relate to their own circumstances and needs. However the scale of the ‘advice gap’ is considerable. Two thirds of members of a DC scheme need help reviewing their financial situation, while three quarters need help calculating the total income they will receive in retirement from all sources.²⁷⁴ Ensuring individuals can confidently access this type of basic information is absolutely necessary if savings rates are to increase.

One way of addressing this issue – tabled by Mark Hoban MP in a report for *Reform* earlier this year – would be to create a RetirementSaverService.²⁷⁵ The platform would bring together information on an individual’s pension(s) and other savings data, give users the tools to build a retirement plan, and offer tailored guidance that would bridge the gap between limited guidance and regulated advice.²⁷⁶ In its yearly review of pensions, the OECD spoke favourably of these types of systems, and the Financial Conduct Authority (FCA) recommended “in the longer term, the creation of a pensions dashboard which will allow the consumer to see all their pensions in one place.”²⁷⁷ This is welcome news, but the Government should implement this policy faster than the timeline of “a few years” set by the FCA. This tool could be crucial in helping savers understand this new environment – the sooner it is available, the better.

Recommendation

The Government should accelerate and prioritise the roll out of the Pensions Dashboard.

6.3.3 Tax treatment of the private pillar

A strong private pillar also needs a stable tax framework that encourages savings. But as previously noted, the biases that affect behaviour lead to less saving than lifecycle models would otherwise suggest. There is a case, therefore, for the Government to encourage saving through tax incentives. However, the current system is expensive, costing the Exchequer £35 billion in 2013-14; and regressive, with two-thirds of relief going to higher and additional rate payers.²⁷⁸ The Conservative Party manifesto was alive to these issues, and contained a commitment to reduce the annual allowance to £10,000 for those earning £210,000 or more. However, as the IFS has shown, this policy would distort the labour market through punitive marginal tax rates at higher levels.²⁷⁹

²⁷³ Steve Webb suggested the Statutory Review into Auto-Enrolment planned for 2017 may no longer be necessary.

²⁷⁴ Barclays, *Steps Towards a Living Pension*, 2014.

²⁷⁵ Mark Hoban, *RetirementSaverService*, January 2015.

²⁷⁶ Ibid.

²⁷⁷ OECD, *OECD Pensions Outlook 2014*, December 2014; Financial Conduct Authority, *Retirement Income Market Study: Final Report: Confirmed Findings and Remedies*, March 2015.

²⁷⁸ HM Revenue and Customs, *Personal Pension Statistics 2015*, February 2015; Hansard, “Tax Allowance: Pensions,” 6 July 2011.

²⁷⁹ Carl Emmerson and Paul Johnson, “Conservative and Labour Proposals to Cut Pensions Tax Relief for Those with an Income above £150,000,” 12 April 2015.

The policy is also indicative of the approach successive administrations have adopted to tax relief reform, where interventions are seemingly evaluated in isolation rather than in the broader context of the tax system. To put tax relief on a more solid grounding, the Government should set out the principles against which the existing framework should be evaluated. This would formalise the Government's rationale for tax relief, guide future reform, and give certainty to savers who are concerned the rules of the game will change later down the line. However, a particular emphasis should be placed on what is an effective way of encouraging saving, and on those groups least likely to secure an adequate level of income in retirement.

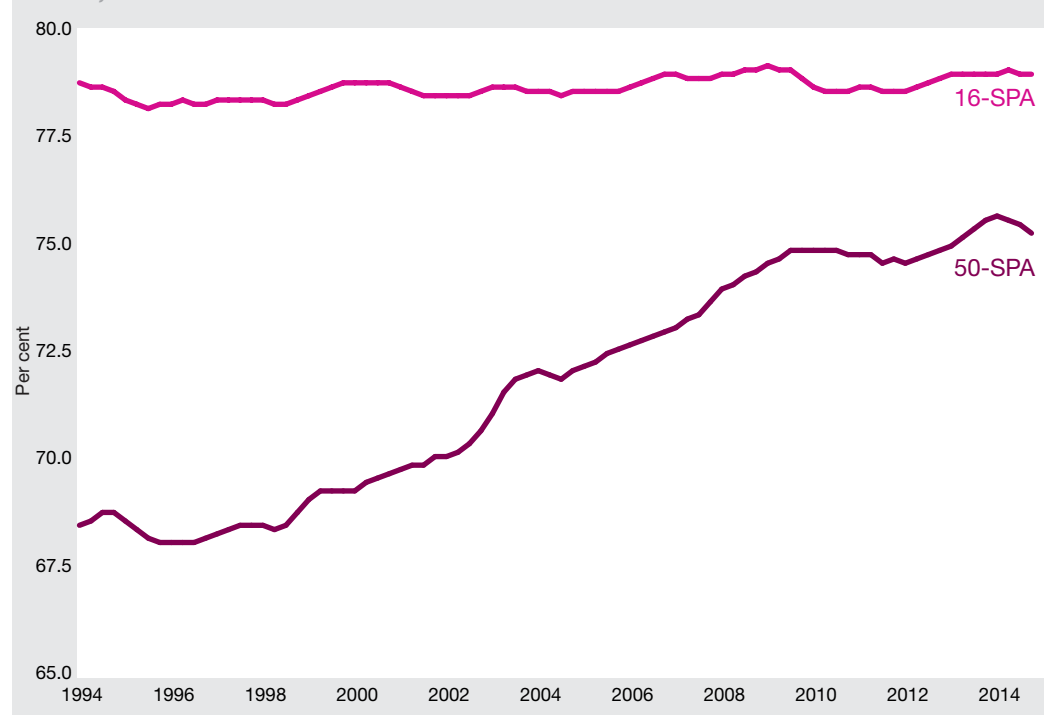
6.4 Support for work in later life

If more individuals are to maintain their standard of living in retirement, pension contributions will need to increase. But private pension savings are also significantly affected by the extent to which an individual can stay in the labour market in later life. Remaining in work up to, or even beyond, pensionable age gives individuals more years to accumulate assets, but it also avoids premature drawing down of savings. Indeed, the DWP estimates that a moderate uplift in employment for those aged between 50 and the SPA would improve retirement income adequacy for 250,000 of the current workforce.²⁸⁰

However, the positive impact of longer working lives extends beyond financial considerations: there is evidence that part-time work in later life has a positive impact on wellbeing, while delaying retirement is thought to improve health outcomes.²⁸¹ Literature on ageing labour markets also indicates that productivity gains from blending younger and older workers could help offset the fiscal strains resulting from the UK's changing demographics.²⁸²

Figure 26: Labour force participation by age

Source: Office for National Statistics (2015), *Participation rates in the UK labour market, 2014*.



²⁸⁰ Department for Work and Pensions, *Scenario Analysis of Future Pension Incomes*.

²⁸¹ Gabriel Heller Sahlgren, *Work Longer, Live Healthier*, May 2013; Deborah Smeaton and Sandra Vergeris, *Older People Inside and Outside the Labour Market: A Review*, January 2007.

²⁸² Ross Guest, *Population Ageing and Productivity: Implications and Policy Options for New Zealand*, 2013.

Encouragingly, participation rates for those aged between 50 and the SPA have increased in recent years (see Figure 26). The abolition of the default retirement age in 2011 was an important reform, as was the pegging of the private pension age to the SPA. However the Coalition Government failed to accompany these measures with initiatives specifically targeted to support older workers who want to re-enter, or remain in, the labour market. The Work Programme, the Coalition Government's main welfare to work initiative, has not performed well for older workers. The job outcome rate for those aged 18-24 is 30.8 per cent, but only 15.3 per cent of those older than 50.²⁸³ Without the right support services, further increases in the employment rate for older workers will be very difficult.

Of course, as the new Pensions Minister Baroness Altmann set out in her report earlier this year, the barriers to employment in later life are complex, including issues as disparate as the stigmatisation of older workers, inflexible working, and health and social care policy.²⁸⁴ But later life employment will improve little unless the Government tackles the skills gap amongst older workers. The European Foundation for the Improvement of Living and Working Conditions (Eurofound) recently concluded that, relative to their European counterparts, the UK's current cohort of older workers suffer from low levels of education, poor qualifications and a lack of transferable skills.²⁸⁵ In large part this has been the result of technological advances. Employers are increasingly demanding workers with advanced computer and technology skills, criteria that are more likely to lock out older workers.²⁸⁶

The Government should, as a matter of priority, develop a better understanding of the skills needs of older workers and test different ways of delivering employment services for this group. This should be jointly owned by DWP and the BIS, both of whom would benefit from higher labour market participation rates. In designing the next iteration of the Work Programme and its pricing structure the DWP should also take account of the additional barriers to employment that older age can bring. Providers must be sufficiently incentivised to deliver the level of support needed to improve the job outcome rate of participants aged 50 and over. Without improved support, increases in the SPA are likely to lead to increased reliance on working age benefits, adversely affecting the wellbeing of older people and placing additional strain on the welfare state.

Recommendation

The Government should develop a skills and welfare to work strategy that specifically targets the needs of older workers who want to remain active in the labour market.

6.5 Conclusion

The Coalition Government unleashed a pensions revolution, unveiling a new Single Tier Pension, implementing auto-enrolment, radically increasing the SPA and introducing freedom and choice at the decumulation stage. A number of these reforms are welcome developments, but what has been missing is a coherent framework that ties the various strands together, focused explicitly around the wellbeing of current and future pensioners. Such an approach would see the Government create a better targeted and more sustainable State Pension, create a structure that helps individuals adequately prepare for retirement through private savings, and support older workers who want to remain in the labour market. Implementing these reforms will be a significant step towards meeting the challenge posed by inadequate savings and the impact of an ageing society on the public finances.

²⁸³ Department for Work and Pensions, *Work Programme Statistical Summary*, March 2015.

²⁸⁴ Baroness Altmann, *A New Vision for Older Workers: Retain, Retrain, Recruit*, March 2015.

²⁸⁵ Eurofound, *Role of Governments and Social Partners in Keeping Older Workers in the Labour Market*, April 2013.

²⁸⁶ Carl Van Horn, Kathy Krepcio and Maria Heidkamp, *Improving Education and Training for Older Workers*, March 2015.

7

Crime and policing

Elizabeth Crowhurst

Charlotte Pickles

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Crime has been in decline since the mid-1990s and continued to decline throughout the last Parliament, confounding two widely held beliefs: (a) that crime increases during a recession and (b) that fewer police officers would mean more crime. The burning platform of austerity drove forces to deliver efficiencies, and the Coalition Government's overhaul of policing bodies led to greater transparency and accountability. There remains however significant scope for reform. Indeed the National Audit Office (NAO) recently argued that "overall many of the savings so far could be characterised as tactical or efficiency savings, rather than service transformation."²⁸⁷

Policing reform in this Parliament should be based on three key objectives:

- reducing high harm crime;
- creating a smaller, smarter and more flexible police service capable of meeting changing demand; and
- integrating policing with other key public services.

Criminal victimisation has a direct impact on physical and mental health,²⁸⁸ as does the anxiety caused by fear of crime.²⁸⁹ Within this, different crime types have differing levels of impact. High harm crimes such as homicide, rape and child sexual exploitation (CSE) have devastating and enduring consequences. In public policy, high harm crime types should carry greater weight than offences such as theft, criminal damage and drug possession, and the reporting of crime rates should reflect this.

Tackling high harm crimes will require much better integration between the multiple services that offenders are often in contact with. This is fundamental to any strategy aimed at preventing (re)offending. Additionally, an approach which tackles the drivers of criminal behaviour will have the greatest benefit for people living in disadvantaged areas due to their higher likelihood of victimisation.²⁹⁰ This means that the benefits of lower levels of crime will be felt most acutely by those who have lower levels of wellbeing to start off with.

7.1 Police demand

7.1.1 Falling crime

Central government police funding was cut by 20 per cent over the last Parliament.²⁹¹ The total number of police officers (excluding the British Transport Police) fell by just under 12 per cent, and police staff numbers dropped by 18 per cent.²⁹² At the same time, crime has continued to fall. The number of offences reported in the Crime Survey of England and Wales (CSEW) has fallen by 26 per cent over the Parliament,²⁹³ meaning thousands fewer people have experienced the trauma of being a victim of crime.

²⁸⁷ National Audit Office, *Financial Sustainability of Police Forces in England and Wales*, June 2014.

²⁸⁸ Victims of crime are more likely to experience a high level of worry about crime and more likely to experience a high level of worry about crime. (Office for National Statistics, *Crime Statistics, Focus on Public Perceptions of Crime and the Police, and the Personal Well-Being of Victims 2013-2014*, March 2015).

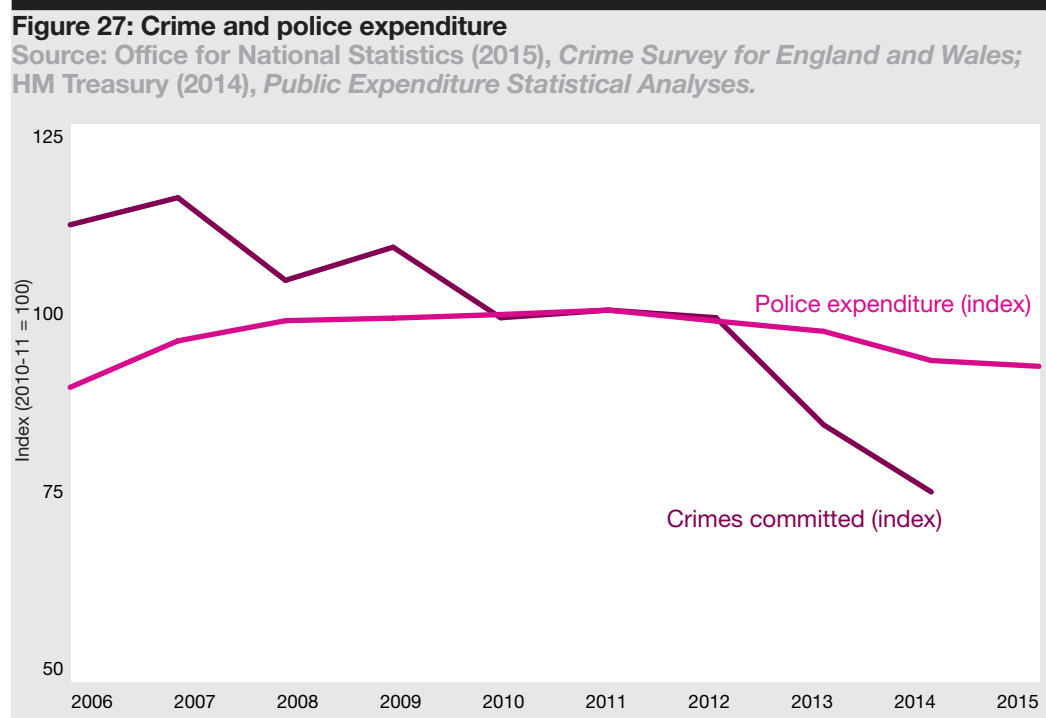
²⁸⁹ OECD, *How's Life? Measuring Well-Being*, 2011.

²⁹⁰ Department for Work and Pensions and Department for Education, *A New Approach to Child Poverty: Tackling the Causes of Disadvantage and Transforming Families' Lives*, April 2011.

²⁹¹ HM Treasury, *Spending Review 2010*, October 2010.

²⁹² Full time equivalents between 2010 and September 2014 (Home Office, *Police Service Strength England and Wales*, 31 March 2010; Home Office, *Police Workforce, England and Wales*, 30 September 2014).

²⁹³ Office for National Statistics, *Crime in England and Wales, Year Ending September 2014*, September 2014, Appendix Tables.



7.1.2 High harm crime

However, as discussed above, not all crime types are equal in their impact. For instance, the Office for National Statistics has found that victims of violence with injury report lower personal wellbeing than victims of violence without injury, and a Dutch study found victims of violent crime suffer more psychological distress than victims of property crimes.²⁹⁴ From a public policy perspective, assessing trends in *high harm* crime types is crucial.

The CSEW incidence rate per 1,000 adults for violence has reduced by 29 per cent between 2008-09 and 2014 – violence with injury dropped by 36 per cent – continuing the decline of previous governments.²⁹⁵ Health service administrative data also shows a drop in violent crime.²⁹⁶

Unfortunately, the CSEW does not record incidences of sexual offences and police recorded data over the last Parliament has been impacted by changes to recording processes (also applicable to police reported violent crime) and high profile operations.²⁹⁷ It is therefore difficult to make an assessment of what has happened over the last Parliament. In addition, historical cases of abuse are an increasing part of police demand. However, the focus on encouraging victims to come forward and improving the investigation and recording of sexual offences, including CSE, is itself positive.

Professor Lawrence Sherman has proposed the use of a Crime Harm Index which “give[s] each type of crime a weight that represents how harmful each type of crime is”, arguing that this would be “the best way to measure what matters in valuing police effectiveness”.²⁹⁸ This approach would enable police to identify ‘harm spots’, rather than using the more traditional aggregate crime ‘hot spots’, and thus better target their resources on those crimes that (a) have the greatest impact on people’s wellbeing and (b)

²⁹⁴ Adriaan Denkers and Willem Winkel, “Crime Victims’ Well-Being and Fear in a Prospective and Longitudinal Study,” *International Review of Victimology*, Vol. 5, No. 2, January 1998.

²⁹⁵ The total number of incidents has also decreased (Office for National Statistics, *Crime in England and Wales, Year Ending September 2014*, April 2015).

²⁹⁶ Office for National Statistics, *Chapter 1: Violent Crime and Sexual Offences: Overview*, February 2015.

²⁹⁷ Office for National Statistics, *Crime in England and Wales, Year Ending December 2014*, April 2015; HM Inspectorate of Constabulary, *Crime-Recording: Making the Victim Count*, November 2014.

²⁹⁸ Lawrence Sherman, “The Rise of Evidence-Based Policing: Targeting, Testing, and Tracking,” *Criminal and Justice*, Vol. 42, No. 1, August 2013.

have the highest system costs. It would also ensure that governments and citizens were able to assess progress against the crime types that people most care about.

Recommendation

The Government, in conjunction with the National Statistician, should develop an index of high harm crime to be incorporated into national crime statistics. Her Majesty's Inspectorate of Constabulary should report on incidences of, and responses to, such crime. Online crime maps should be presented as 'heat maps' weighted by harm.

7.1.3 Increasing non-crime demand

Crime rates, however, do not paint the full picture of police activity. Analysis by the College of Policing highlights the increasing strain placed on the police by 'public safety and welfare' activities.²⁹⁹ Missing persons, animal welfare, crowd control and road traffic incidents are some of the non-crime issues that police are expected to respond to.³⁰⁰ Indeed 83 per cent of command and control calls in 2011-12 were for non-crime related incidents.³⁰¹

Mental health related incidents are a particular area of concern for forces. The College of Policing reports this as a growing issue.³⁰² They note that whilst forces consistently flag around 2 per cent of incidents per year as linked to mental health, analysis by the Metropolitan Police Service (MPS) suggests a figure closer to 15-20 per cent. Nationally 20 per cent would equate to almost four million incidents. A 2015 report on vulnerable people by HM Inspectorate of Constabulary (HMIC) also flagged this as a particular issue, noting that "[p]eople with mental health problems and children were taken into custody by the police because they were unable to secure the help they needed from health or social care services." This has a "detrimental impact on their health and wellbeing, and in many cases is the wrong approach."³⁰³ The police service is picking up the pieces where other public services are failing to act.

7.2 The legacy of the Coalition

The Home Secretary, Theresa May, set one objective for the police, "to cut crime",³⁰⁴ and made the case that this could be achieved whilst making significant cuts to police budgets. This was accompanied by a "radical reform agenda"³⁰⁵ that sought to deliver greater accountability and professionalisation through the overhaul of existing institutions, reform of the workforce and a focus on identifying what works. In a 2014 speech to *Reform*, the Home Secretary said "we have been able to make these changes not despite spending cuts but because of them".³⁰⁶

7.2.1 Improving accountability

The Coalition Government placed increasing accountability at the heart of its reforms. This took two forms: direct accountability to the people through Police and Crime Commissioners (PCCs) and indirect accountability through making the Inspectorate more independent of both government and the police. In addition, independent reviews of the Association of Chief Police Officers and the Police Federation led to reforms being undertaken to improve the transparency of their operations and increase accountability. Whilst these reforms were in part a response to the Government's reorganisation, they were also driven by a series of revelations about police malpractice. It is hoped that overhauling these institutions will contribute to increased public trust in the police.

²⁹⁹ College of Policing, *College of Policing Analysis: Estimating Demand on the Police Service*, January 2015.

³⁰⁰ HM Inspectorate of Constabulary, *Taking Time for Crime: A Study of How Police Officers Prevent Crime in the Field*, 2012.

³⁰¹ College of Policing, *College of Policing Analysis*.

³⁰² Ibid.

³⁰³ HM Inspectorate of Constabulary, *The Welfare of Vulnerable People in Police Custody*, March 2015.

³⁰⁴ Home Office, *A New Approach to Fighting Crime*, March 2011.

³⁰⁵ Theresa May, "The Police Must Change and so Must the Federation," 21 May 2014.

³⁰⁶ May, "Lessons of Police Reform," July 2014.

7.2.1.1 Police and Crime Commissioners

The introduction of locally elected PCCs was intended to improve the accountability of the police to the public they serve, to break down institutional silos and identify opportunities for reform. In 2012 *Reform* argued that the PCC role is best placed to deliver criminal justice system integration and that responsibility for areas such as youth offending and probation should be devolved to them to enable this to happen.³⁰⁷ The outsourcing of probation services undertaken by the Coalition Government as part of its Transforming Rehabilitation programme could have supported this process. However, instead of involving PCCs in the commissioning process, Community Rehabilitation Companies are now completely separate entities. With criminal justice services in dire need of better integration, the Coalition missed a key opportunity to work towards this.

Turn-out for the PCC elections was low at around 15 per cent. However, in its assessment of PCC progress the Home Affairs Select Committee found that “PCCs have provided greater clarity of leadership for policing within their areas, and are increasingly recognised by the public as accountable for the strategic direction of their police force.”³⁰⁸ This is clearly positive. In addition, the Committee records instances where PCCs are indeed using their powers to drive collaboration and efficiency, thereby securing better value for local communities.³⁰⁹ However it also notes that this is not happening on a large enough scale.

7.2.2 Reforming the workforce

In addition to the sizeable workforce reductions, an independent review of police pay and conditions conducted by Sir Tom Winsor resulted in reforms to remuneration policies and policing structures. Police pay is being reformed to reward performance and skill level rather than length of service. The Coalition Government established the College of Policing to set professional standards and work is underway to review police leadership, with a view to stripping out unnecessary levels and improving culture.³¹⁰

While it is too early to assess the overall impact of the Coalition’s reforms, the objective of creating a more professional police service which is better equipped to deal with changing demand and targets resources effectively is right. Not only does this mean that forces should be better at tackling crime, but also that the public should have greater confidence in the police.

7.2.2.1 Workforce composition

Home Secretary Theresa May argued: “what matters is not the total number of officers employed, but the number of officers deployed, and how effectively they are deployed”.³¹¹ This is absolutely true, but in retaining the focus on officers she does not go far enough. As Chris Sims, Chief Constable of West Midlands Police (WMP), has stated “the familiar cry of ‘protect the frontline’ should not be about maintaining numbers of uniformed officers” but ensuring that demand is met in the most appropriate way, which means removing the “artificial ring-fencing of the front line”.³¹²

Chief constables need to be able to shape their workforce to best serve their communities and the national need. This may mean getting rid of officers and retaining, or even increasing, police staff with relevant specialist skills. The Winsor Review notes that the inability of forces to remove officers has meant high levels of compulsory redundancy for police staff:

“In many cases, this has been the only option available to Chief Constables, but it represents poor value for money for the taxpayer, who faces paying higher salaries to

307 Andrew Haldenby, Tara Majumdar and Will Tanner, *Doing It Justice*, October 2012.

308 House of Commons Home Affairs Select Committee, *Police and Crime Commissioners: Progress to Date, Sixteenth Report of Session 2013-14*, May 2014.

309 Ibid.

310 College of Policing, *Leadership Review: Interim Report*, March 2015.

311 May, “Police Reform.”

312 Chris Sims, “Frontline Policing,” National Police Chiefs’ Council, 11 April 2011.

police officers to do jobs which could – and should – be done at lower cost by more able and experienced police staff.”³¹³

HMIC records that forces have voiced concerns about the dangers of a “static and ageing workforce”, noting that constraints on recruitment mean they are not “able to become representative of the communities they serve or to keep pace with a changing society.”³¹⁴

7.2.2.2 New talent

The Coalition Government also made opening the police service up to new talent a key plank of its reforms. The implementation of Direct Entry as a way of bringing in “high ability people...who have perspectives and experience which the police service lacks in sufficient measure, and needs” is a positive step.³¹⁵ The scale and pace of delivery, however, has been insufficient. Of the first cohort of 1,849 applicants, 105 went through to assessment and just 43 were recommended for the 83 vacancies.³¹⁶ The bar for entry must, of course, be set high, but the College of Policing has suggested that the programme could benefit from greater clarity of who it is trying to attract.³¹⁷

Police Now, introduced in the MPS in late 2014, is also aimed at attracting talent to policing, specifically to work in the “most challenged and disadvantaged communities”.³¹⁸ Modelled on the Teach First programme it seeks to recruit high-performing graduates to bring about “social change”.³¹⁹ As highlighted earlier, communities suffering from high levels of deprivation also experience the highest levels of crime. Targeting talent in these areas therefore stands to make the greatest impact.

Recommendation

The Government should implement Sir Tom Winsor’s 2013 recommendation that compulsory severance be introduced for all police officers, giving chief constables the flexibility to create a modern workforce that best meets demand.

In conjunction with the College of Policing, the Government should also consider how to increase the number of Direct Entry superintendents, to achieve the goal of diversifying the experience and talent base within the police service as quickly as possible.

The College of Policing should work with the Metropolitan Police Service to evaluate Police Now and, if it proves successful, support its roll out nationally.

7.2.3 Delivering increased efficiency

The budget cuts over the last Parliament provided a burning platform for forces to seek efficiencies. This led to cross-force and blue light collaborations, greater use of technology, and partnerships with the private sector. However, despite steps in the right direction, in the areas of procurement and technology the Government did not go far enough.

In addition there remains significant scope to increase productivity through better understanding the demands on police time. A recent NAO report on the financial sustainability of the police service stated: “most forces do not have a thorough evidence-based understanding of demand, or what affects their costs” and there is “limited data on police productivity”.³²⁰

Forces must develop a clearer idea of what officers are actually spending their time on in order to identify processes and activities that can be eliminated or streamlined. Such

³¹³ Thomas Winsor, *Independent Review of Police Officer and Staff Remuneration and Conditions Final Report: Volume 1*, 2012.

³¹⁴ HM Inspectorate of Constabulary, *Policing in Austerity: Meeting the Challenge*, National Report, July 2014.

³¹⁵ Ibid.

³¹⁶ House of Commons Home Affairs Select Committee, *Evaluating the New Architecture of Policing: The College of Policing and the National Crime Agency*, Tenth Report of Session 2014-15, February 2015.

³¹⁷ College of Policing, *Leadership Review*.

³¹⁸ Lawrence Spencer, Matt Lloyd and Lydia Stephens, *Police Now: The Case for Change*, 2014.

³¹⁹ Ibid.

³²⁰ National Audit Office, *Financial Sustainability of Police Forces in England and Wales*, June 2015.

analysis would also powerfully highlight the inefficient dependencies on other criminal justice agencies that reduce police productivity – for example the hours of officer time spent on calls to the Crown Prosecution Service or waiting around for court appearances.

7.2.3.1 Procurement

The Coalition Government introduced the National Police Procurement Hub with the aim of delivering significant savings. To date the Hub has failed to meet expectations.³²¹

Instead, nine joint procurement arrangements have developed amongst forces. Unfortunately, a lack of “agreed common specifications for many types of goods and services” is reducing “their ability to make savings.”³²² In its analysis of police procurement the NAO found, for example, that the price paid by forces for standard police boots ranged from £25 to £114 and £20 to £100 for high visibility jackets.³²³ For uniforms, forces disagree about design requirements such as the number of pockets.³²⁴ This is a completely avoidable waste of taxpayer resources. Standardisation and greater use of collective purchasing could drive significant savings and this is a prime example of where national mandation is needed.

The Home Office has recognised this and announced plans to make use of the National Police Procurement Hub mandatory, but it has failed to spell out what this means in practice.³²⁵ It should rectify this immediately.

Recommendation

The Government should mandate all police forces to purchase standard items such as handcuffs, boots and uniforms through a national framework.

7.2.3.2 Technology

Technology is expected to revolutionise public service delivery, enabling better outcomes for much lower costs. However in policing, as elsewhere in the public sector, forces have barely scratched the surface of its potential. Instead, forces largely remain burdened by legacy ICT systems and integration between forces and across criminal justice services is hampered by the lack of interoperability between their different systems. Innovations such as facial and voice recognition technology, and predictive analytics are yet to be leveraged on any scale.

The drive to make officers more mobile through the use of modern devices and connectivity is also in its infancy. Eliminating unnecessary trips to stations would increase police productivity, maximising time on the beat and thereby enabling forces to get more ‘visible hours’ from fewer frontline staff. Analysis by HMIC found that “out of the 19 basic technology operating systems [such as email or sending images] now required by a constable to carry out frontline roles away from police stations, only one was consistently available”.³²⁶

As early as July 2011, Home Secretary Theresa May highlighted the failure of police ICT systems stating “[t]he way we do things now is confused, fragmented and expensive. We know, for example, that one supplier now has over 1,500 contracts across all the forces.”³²⁷ To address this she announced the creation of a National Police ICT company. Having formally been established a year later, by summer 2014 the company was still not in operation.³²⁸ Continuing discussions led to the Home Office passing control to a board

³²¹ By January 2013, just 2 per cent of essential police items had been bought through the hub, some distance from the Home Office’s target of 80 per cent by 2015 (House of Commons Committee of Public Accounts, *Police Procurement, Twenty-First Report of the Session 2013-14*, September 2014).

³²² National Audit Office, *Police Procurement: Report by the Comptroller and Auditor General, Session 2012-13*, March 2013.

³²³ Ibid. Fig 5

³²⁴ Ibid.

³²⁵ Ibid.

³²⁶ HM Inspectorate of Constabulary, *Taking Time for Crime*.

³²⁷ May, “Police Reform.”

³²⁸ Charlotte Jee, “Police ICT Company Still Not Operating Two Years after Launch,” *Computerworld UK*, 30 July 2014.

of PCCs and police agencies, with the Police ICT Company finally becoming operational in March 2015. However the projected annual £400 million savings are yet to be realised.³²⁹ Getting this right must be a key focus for policing going forwards, but added to this must be a focus on ensuring interoperability between the ICT systems used by the different criminal justice services.

7.3 The next phase of police reform

7.3.1 The policing model

Whilst the reforms of the Coalition Government realised significant savings across policing, meeting the challenges of the new Parliament will require a much more fundamental transformation of police operating models. This means setting out a clear vision for the police service – its purpose and priorities, and the outcomes it is seeking to achieve – from which appropriate structures can be built.

7.3.1.1 The police service operating model

As discussed, budget cuts placed considerable pressure on forces to deliver efficiencies in the way they do business. This has led to increased questioning of the sustainability of the 43 force model.³³⁰ Indeed, in late 2014 the Chief Constable of Lincolnshire Police wrote to the Home Secretary stating: “a smaller, forward looking and innovative force that has embraced change, Lincolnshire Police in 2016-17 will be, on the basis of current financial projections, on the edge of viability.”³³¹ Writing in *The Guardian* in December 2014, MPS Commissioner Bernard Hogan-Howe said: “How many forces do we need? No more than nine, certainly, based on regions.”³³² Writing for *Reform* in March 2015 Lord Harris, Chair of the All-Party Parliamentary Group on Policing, argued that “[i]t is not sustainable to continue with 43 forces”.³³³

Unfortunately, despite continuing criticism there is no consensus about what should replace the 43 force structure. This is perhaps because the focus is wrong: restructuring should be the by-product of a clear vision for how a modern police service should operate, not an end in itself. Whilst there may be particular geographical areas in which the merger of several forces may be sensible, there is no neat geographical division of all forces. Moreover, creating a smaller number of very large forces would likely make integration with other public services even more challenging, and it is this integration that is likely to deliver the greatest value. A more sensible approach may be to track with the devolution agenda, using the proposed mayoral model, in place of PCCs, to drive integration and implement a robust multi-service problem-solving approach to high harm locations.

As well as the question of force numbers, there is a growing discussion about the level at which different police functions should sit. HMIC has argued that “there is now a pressing need for greater clarity as to which policing services are best provided by forces at the local, regional or national level.”³³⁴ Some specialist functions are already separated from universal local policing activity. Counter-terrorism, for example, has been built around hotspot areas and capability sits within lead forces. This appears to be a sensible model and one that may appropriately be extended to other functions requiring specialist skills, for example complex CSE, undercover or cybercrime capabilities. In the latter example in particular, the technological investment needed to tackle more serious and complex cases would be prohibitive at an individual force level. Specialist teams sitting within lead forces could instead be deployed to other forces, when appropriate, to deal with specific incidences on a pay for service basis. This would make more sense than creating artificial regional entities which are likely to increase costs and have no obvious lines of accountability.

329 Gary Mason and Ian Weinfass, “Police ICT Company Operational,” *Police Oracle*, 12 April 2015.

330 See for example Independent Police Commission, *Policing for a Better Britain: Report of the Independent Police Commission*, November 2013.

331 Neil Rhodes, “Letter to the Home Secretary,” 21 November 2014.

332 Bernard Hogan-Howe, “Cuts without Reform Put the Public at Risk,” *The Guardian*, 14 December 2014.

333 Reform, “New Frontiers of Criminal Justice Reform,” 10 March 2015.

334 HM Inspectorate of Constabulary, *Policing in Austerity*.

Recommendation

The Government, in conjunction with the National Police Chiefs' Council, should as a matter of priority review how best to deliver specialist policing functions in the most cost effective and accountable way.

7.3.1.2 Force operating models

Individual forces should likewise review their operating models. Police demand is changing and traditional policing models must change with it. Declining overall crime levels combined with rises in non-conventional crime types, and an increasing focus on high harm crimes such as CSE, requires a different operating model. Workforce changes are, as discussed above, one element of this, but the structures within which that workforce operates is equally vital. With a greater proportion of police time spent on high harm public protection issues, a cross-public service approach will be key (see below). Chief constables must review the adequacy of their current operating model, based on a thorough understanding of local demand and with a view to expected future trends in demand.

WMP is a case in point, partnering with the private sector to design and implement 'WMP2020'. Its blueprint seeks to create a "smaller, faster, smarter service"³³⁵ through organisational restructuring, multi-agency partnership working, technological transformation and taking an asset-based approach to communities. The NAO has highlighted the approach taken by WMP, stating: "its new operating model is based on extensive work done over several years to build its understanding of demand and costs. This work provided a foundation for deciding on priorities and operational structures to provide better services at lower cost."³³⁶ Other forces should learn from WMP. In partnership with their PCC they should review their force operating models to ensure they are best placed to meet demand in the most efficient and effective way.

7.3.2 Public service integration

Whilst there are notable examples of new partnerships (such as the cross-force collaborations highlighted above), public service integration remains inadequate. The multi-agency teams that have long been used to try and tackle complex challenges such as gangs and safeguarding children are simply not sufficient and questions have been raised about how traditional service boundaries can be overcome. Encouragingly, many forces are actively working to integrate with other public services, but this will require considerable cultural as well as structural change.

7.3.2.1 Preventing (re)offending

This is particularly important in prevention, a key focus for most police forces. Preventing (re)offending requires a more sophisticated understanding of risk than most forces currently have. Traditionally risk has been quantified within individual service silos, for example allocating offender risk profiles based on the contact that individual has had with the criminal justice system. However, this offers limited insight. High harm offenders are likely to be known to multiple agencies. A truer assessment of risk would, therefore, incorporate information from the education system, social services, health services and so on. This requires effective data and intelligence sharing between agencies, something which remains a considerable barrier to integration.

Preventing (re)offending also requires an integrated service model that ensures the right interventions are delivered in the right sequence at the right time. There are a few examples where this type of approach is already in place. The Coalition Government's Troubled Families programme is delivering an integrated response to a complex problem, with a particular focus on crime, education and employment. The Department for

³³⁵ West Midlands Police, "WMP2020 - West Midlands Police," 5 January 2015.

³³⁶ National Audit Office, *Financial Sustainability of Police Forces in England and Wales*.

Communities and Local Government (DCLG) claims that of the 117,910 families who had entered the programme by February 2015, 105,671 have been “turned around”.³³⁷ However a full evaluation of the programme is not due out until the end of 2015 and DCLG’s figures have been criticised by one of the organisations involved in the full evaluation.³³⁸ Nonetheless, the principle is correct.

The Scottish Community Initiative to Reduce Violence (CIRV) is another example. It seeks to replace “bureaucratic divisions” with a “truly multi-disciplined approach focused on clear outcomes”.³³⁹ The second year report on the programme found that, on average, gang members involved in CIRV saw a 46 per cent reduction in violent offending, and a 56 per cent reduction amongst those most intensively engaged in the programme.³⁴⁰ However despite these examples “[c]ollaboration between forces, public and private sector organisations remains patchy, fragmented, overly complex and too slow”.³⁴¹

Recommendation

The College of Policing should identify best practice examples of collaboration and integration as part of their What Works repository.

7.3.2.2 Mental health

Particular attention needs to be given to addressing the current inadequacies in dealing with people with mental health issues. As discussed above, the police service is increasingly responding to mental health related incidents as the service of last resort. This is placing unacceptable strain on police resources, but more importantly is damaging for those individuals suffering from mental health problems. As HMIC’s report stated, the lack of alternative is leading to “vulnerable adults and children...being criminalised unnecessarily”.³⁴²

The Department of Health is currently funding pilots using mental health street triage vehicles as a way of tackling this. Whilst it is early days for the scheme, initial evaluations have been promising, with a 40 per cent reduction in the use of Section 136 of the Mental Health Act by some forces.³⁴³

Encouragingly there are examples of innovation in this area, with many PCCs piloting new ways of working. In Northamptonshire, following the initial success of a triage pilot, PCC Adam Simmonds has just extended the use of triage cars to 4pm - 2am at the weekend. He believes the additional time will enable more vulnerable people to be reached out of hours and reduce the demand on traditional services on Friday and Saturday nights. In Norfolk, PCC Stephen Bett has introduced a Mental Health specialist within the Norfolk Police Command and Control Room.³⁴⁴ This allows ‘real time’ support to be provided to vulnerable individuals and for the most appropriate services to be engaged reducing unnecessary police involvement.

However at the system level criminal justice services and health remain entirely separate, regardless of the considerable crossover. Despite multiple crime-related indicators in the

337 For a family to be considered “turned around” at least one adult in the household needs to have moved into work, for children already in school to have had fewer than three fixed term exclusions and less than 15 per cent unauthorised absences in the last 3 consecutive terms, for those not in school to have moved into school or alternative provision, a minimum of a 60 per cent reduction in ASB in the last 6 months and a reduction in reoffending by those under 18 in the household of at least 33. (Department for Communities and Local Government, *The Troubled Families Programme: Financial Framework for the Troubled Families Programme’s Payment-by-Results Scheme for Local Authorities*, March 2012).

338 Jonathan Portes, “A Troubling Attitude to Statistics,” *National Institute of Economic and Social Research*, 15 March 2015.

339 Violence Reduction Unit, *The Violence Must Stop: Glasgow’s Community Initiative to Reduce Violence*, 2011.

340 Ibid.

341 HM Inspectorate of Constabulary, *Policing in Austerity*.

342 HM Inspectorate of Constabulary, *The Welfare of Vulnerable People in Police Custody*.

343 Section 136 allows the police to remove those experiencing mental crisis to a place of safety for treatment or care. House of Commons Home Affairs Select Committee, *Policing and Mental Health, Eleventh Report of Session 2014–15*, May 2014.

344 Office of the Police and Crime Commissioner for Norfolk, “PCC Secures Share of £20m,” Office of the Police and Crime Commissioner for Norfolk, 16 January 2014.

Public Health Outcomes Framework,³⁴⁵ neither PCCs nor police chiefs are mandated to sit on Health and Wellbeing Boards, leaving it up to Boards whether to include them. This needs addressing.

7.3.2.3 A single point of access for non-emergency services

The police are too often the service that citizens turn to when they do not know who to contact or how to contact other services, placing inappropriate demand on forces. Whilst 101 was introduced as a non-emergency number for reporting crimes, this does not solve the need to divert citizens away from defaulting to the police service for non-crime concerns and queries. In 2003 New York Mayor Michael Bloomberg introduced the 311 Customer Service Centre to provide a single, non-emergency number for citizens looking to access public service information. In 2009 a focus on self-service saw 311 online launched, enabling citizens to access more than 3,000 services in the 311 system.³⁴⁶ Between 2003 and 2009, 311 contributed to a reduction of around 4 million 911 calls and has exposed areas where multiple services were duplicating activity.³⁴⁷ Integrating public service information and access in this way has the potential to reduce inappropriate demand on police resources as well as improve citizens' experiences.

7.3.3 The role of non-state actors

Regardless of increased efficiency and improvements to the workforce, the burden of crime reduction cannot fall to police forces alone. To ensure that public funds are deployed to best effect, non-state actors must take a greater role in crime prevention and promoting safer communities.

Reform's 2014 publication, *The Expert Citizen*, advocated engaging communities as a key way to reduce demand.³⁴⁸ At a basic level, citizens who take steps to keep themselves and their property safe are less likely to be the victims of crime and therefore require police services (the success of vehicle and house alarms stands testament to this).³⁴⁹ This also applies to businesses, as highlighted in the *Reform* report, *The police mission in the twenty-first century*.³⁵⁰ Business Crime Reduction Partnerships can, for example, facilitate the sharing of intelligence between businesses, better enabling them to prevent crime.

Beyond this, an approach that sees communities as assets could lead to further demand suppression and, importantly, help to tackle some of the more high harm crimes. "Asset based community development initiatives empower citizens to use their practical skills and social capital, and encourages public, private and third sector organisations to contribute resources towards the aims of health and well-being, community morale and ownership, and cooperation to reduce crime."³⁵¹ An asset-based approach has, for example, been used to tackle gang violence in America through projects such as the Cincinnati Initiative to Reduce Violence,³⁵² and Scotland has successfully deployed this model via their Violence Reduction Unit. Importantly, such an approach not only has the potential to reduce crime and make communities safer, but puts communities themselves at the heart of policing.

Recommendation

The College of Policing should review the evidence on asset-based policing and provide information on best practice models as part of its What Works repository.

345 Public Health England, *Public Health Outcomes Framework: May 2015 Data Update*, May 2015.

346 "The NYC 311 Story...", http://media.govtech.net/GOVTECH_WEBSITE/EVENTS/PRESENTATION_DOCS/2009/GTC_East/NYC_311_Story.pdf, accessed on 9 June 2015.

347 Accenture, *Transforming Customer Services to Support High Performance in New York City Government*, 2011.

348 Clare Fraser, Camilla Hagelund, Katy Sawyer and Myles Stacey, *The Expert Citizen*, July 2014.

349 Ibid.

350 Stephen Greenhalgh and Blair Gibbs, *The Police Mission in the Twenty-First Century: Rebalancing the Role of the First Public Service*, April 2014.

351 Fraser et al., *The Expert Citizen*.

352 In the two years after the implementation of CIRV there was a 16.3 per cent reduction in total homicides and 10.1 per cent in total shootings (University of Cincinnati Policing Institute, *Implementation of the Cincinnati Initiative to Reduce Violence: Year 2 Report*, November 2009).

7.3.3.1 Cybersecurity

With cybercrime on the rise, this too is an area where ‘expert citizens’ and proactive businesses can help ensure that police time is spent on high harm offences. In 2013, GCHQ argued that up to 80 per cent of cyber attacks on businesses could be stopped through basic information risk management by users.³⁵³ Simple actions such as implementing better privacy settings and installing anti-virus software can help prevent phishing and identity theft, but remain underused. Polling commissioned by the Home Office found that 18 per cent of frequent internet users and 37 per cent of less frequent users did not use security software on all devices, and only 43 per cent of users said they would check a site was secure.³⁵⁴

The Home Affairs Committee has argued that domain owners and software developers also have a role to play. Design flaws and programming errors within software can make even some considered behaviour unsafe and software developers should be incentivised to provide better protections for service users.³⁵⁵

7.4 Conclusion

The Coalition Government made considerable progress towards delivering a more transparent, accountable and efficient police service. The scope and need for further reform is, however, considerable. Police reform in this Parliament must focus on building a police service that is smaller, smarter and more flexible, and one that is part of an integrated public service response to communities at risk of high harm crime. This will require a much better understanding of police demand, both in terms of crime and non-crime incidences and the day to day allocation of police time. It will mean prioritising increases in productivity and capability as well as integration with other local services. This means shifting the debate from ‘how many forces should we have?’ to ‘how can we best meet changing demand?’ Delivering these reforms will lead to better outcomes for citizens.

³⁵³ Government Communications Headquarters, *Countering the Cyber Threat to Business*, Spring 2013.

³⁵⁴ Home Office, *Cyber Crime: A Review of the Evidence, Summary of Key Findings and Implications*, October 2013.

³⁵⁵ House of Commons Home Affairs Select Committee, *E-Crime, Fifth Report of Session 2013–14*, July 2014.

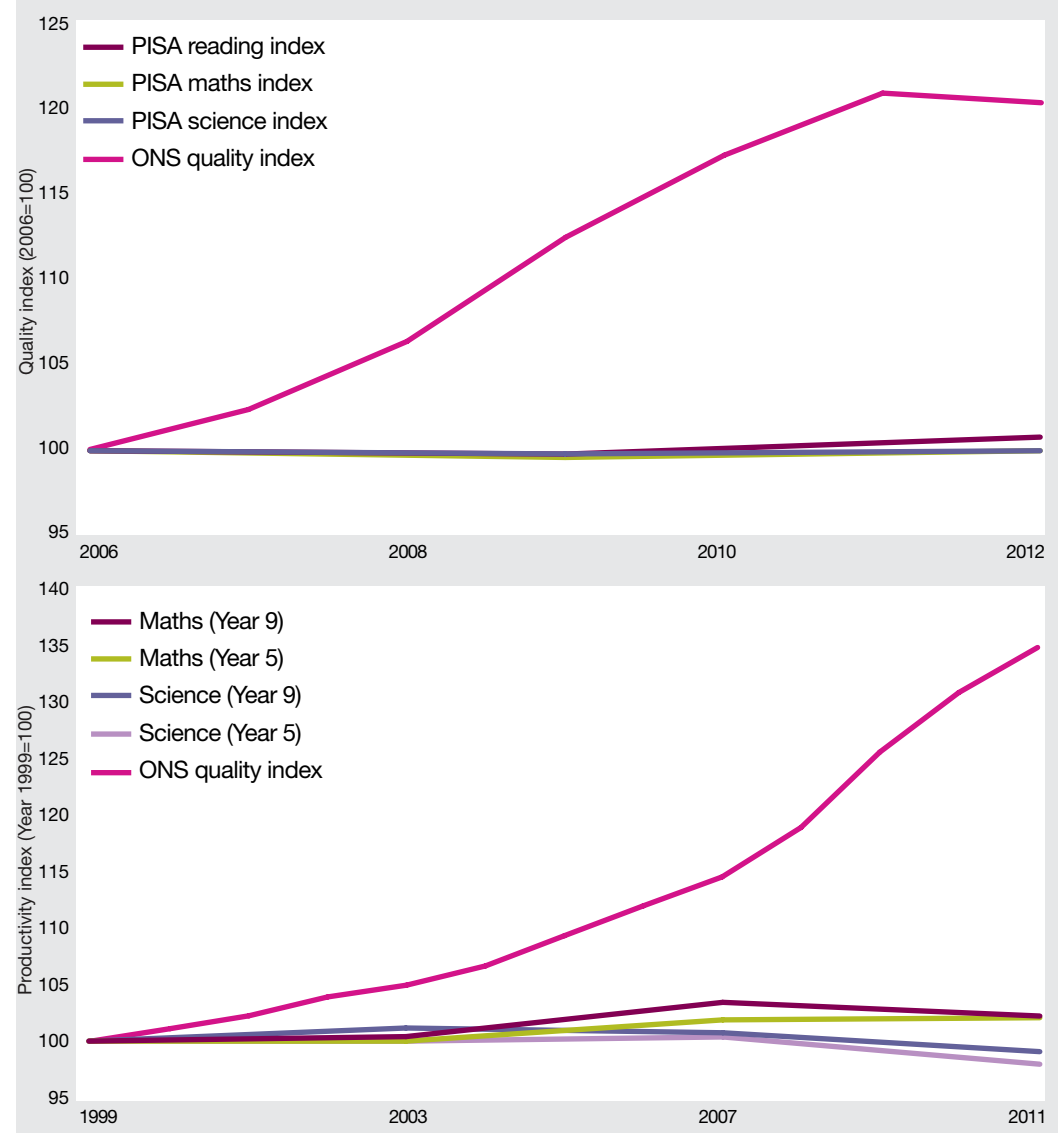
Appendix A: Education productivity

This report estimates the impact on productivity of alternative measures of education quality in the UK. While there is currently no agreed benchmark against which to measure potential grade inflation in pupils' examination results, a number of studies have used national and international assessments as a reference to estimate the effect.³⁵⁶

Two measures were used in this analysis: PISA is a triennial assessment in reading, maths and science, which started in 2000. TIMSS is a quadrennial assessment in science and maths, which started in 1995, with results reported separately for each nation in the UK (but not for the country as a whole). The mean PISA score of UK performance in each subject was recorded for 2006, 2009 and 2012, indexed at 100 in 2006. (Sample sizes for the first two years, 2000 and 2003, were too small to allow an effective comparison.) The mean TIMSS score for England in each subject was recorded for 1999, 2003, 2007 and 2011, indexed at 100 in 1999. Figure 28 shows the results of these calculations.

Figure 28: Different measures of education quality

Sources: OECD (2006, 2009, 2012), *Programme for International Student Assessment: What Students Know and Can Do*; National Foundation for Educational Research (2011), *TIMSS 2011: mathematics and science achievement in England*; Office for National Statistics (2014), *Public Service Productivity Estimates: Education, 2012*; Reform calculations.



356 See Robert Coe, *Improving Education: A Triumph of Hope over Experience*, June 2013; Robert Coe, *Changes in Standards at GCSE and A-Level: Evidence from ALIS and YELLIS*, April 2007.

Not all the differences in individual subject results were statistically significant. Table 5 shows the confidence intervals for the PISA dataset. As can be seen, the UK performance in reading is much more variable. Nevertheless, taking an average of all three subjects suggests that overall performance remained relatively unchanged between 2006 and 2012.

Table 5: Confidence intervals for PISA scores

Source: PISA (2006, 2009, 2012), Year 2006=100

	Maths			Reading			Science		
	10th percentile	mean	90th percentile	10th percentile	mean	90th percentile	10th percentile	mean	90th percentile
2006	381	495	612	359	495	621		515	
2009	380	492	606	370	494	616	385	514	640
2012	371	494	616	372	499	619	384	514	639

Following the established ONS methodology (and based on existing measures of education inputs and output quantity) these alternative indices of quality were used instead of the standard uncapped Average Point Score to create new estimates of education productivity.³⁵⁷

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